

AN ANALYSIS OF THE STRATEGIES OF FOREIGN MULTINATIONAL
CORPORATIONS THAT HAVE ACHIEVED SUCCESS IN THE JAPANESE
CONSUMER PRODUCTS' MARKET

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ABSTRACT

Much debate exists about the difficulties and structural obstacles that impede foreign companies when conducting business in Japan. Consequently, foreign concerns frequently neglect or even spurn the opportunities presented in the Japanese market. While much is known about the success of Japanese companies penetrating and dominating Western markets, much less is known about the actual experience of those companies attempting to reverse the flow. The research conducted for this thesis is based on approximately forty interviews, many of them Chief Executives of MNCs successfully operating in the consumer goods industry in Japan, also included were advertising agents, consultants and other facilitators. Peer group evaluation was used to gauge the success of the companies and interviewees were selected on this basis. The research is based on interviews conducted in Japan during 1990-91. By applying the principles of grounded theory a broad assessment was made of the approaches adopted toward consumer goods marketing. Japanese opportunities and obstacles were appraised, as were foreign companies' responses to them, by drawing on frameworks established by Porter (1991) and Quelch and Hoff (1986). Moreover, efforts were made to synthesize the ingredients of successful strategy.

The question was probed what difficulties foreign MNCs perceive, in both Japan and its markets and a central issue tackled is whether these perceptions are matched by reality. A marked contrast was evident between the views of the protectionist lobby and that of those foreign executives active in the market. The view of the latter is that the Japanese consumer market can be considered an open market. However, being open does not mean that it is easy to penetrate. Japan offers a testing commercial climate, one in which only the strongest survive, Japanese or otherwise.

It was concluded that certain styles of Western marketing were successful. Foreign companies have successfully applied Western marketing strategies and have beaten indigenous Japanese companies into second place in some key product categories. What becomes apparent is the Japanese market not only offers attractive opportunities, it is one in which foreign companies can and do succeed. Moreover, what appears likely is that as Japan continues to export its management methodologies alongside its products, being able to survive the Japanese commercial climate will become a prerequisite for maintaining competitive advantage world-wide.

I hereby declare that I composed
this thesis myself and that the work
is my own.

10th June 1993

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CHAPTER 1 — INTRODUCTION

The overall objective of this study is to analyze a sample of foreign MNCs which have achieved significant presence in the Japanese consumer products' market and induce from that analysis some strategic implications for marketing strategy which can potentially benefit foreign companies attempting to penetrate that market.

Japan has established a formidable reputation in the post-war period, both as an economic success and as a market in which it is difficult or even, as some claim, impossible to do business as an outsider. It is often seen as a country where the barriers to market entry are so complex, its distribution system with over 1.5 million retail establishments (MITI) and local culture so impenetrable, that those who attempt to do business there frequently retreat in confusion. This viewpoint, by no means unique to the business world, is reinforced by economic circumstances; for example, mention of the relationship between Japan and its trading partners usually includes reference to serious misunderstandings and threats of reprisal from the US or EC. Unfortunately, this gap in understanding, which is usually cited as the reason for communication breakdown, has worldwide implications.

This raises the question whether there are genuine reasons for these difficulties. Talking about Japan — *nihonjinron* — has become something of a growth industry in both academic and business circles. *Nihonjinron* characterized by Dale (1986:14) as "the commercialized expression of Japanese nationalism". It acts to support the gap, to which Yoshino (1992:164) drew attention, that exists in the Westerners' image of Japan. He maintained, these circumstances have provided Japan's business elites with an opportunity to act as spokesmen for the majority of ordinary

Japanese on the subject of Japanese social culture. Emmott (1989), going further, claims that Japanese businessmen actually promote misunderstanding in business or trade circles because they are uncomfortable with the idea that they might be understood. Talking about Japan — and about how different its inhabitants are — is, Emmott continues, an obvious attempt to put opponents on the defensive. Similarly, in cultural and academic circles, he asserts, the idea that there is a singular spiritual dimension to being Japanese is an important ingredient of both that country's self-esteem and foreign coming-to-terms with an alien culture. Seemingly, Western authors from as far back as Lafcadio Hearn in the late 19th century emphasized these so-called differences of thinking and acting (perhaps more visible then), and neglected Japanese similarities to other nations and peoples (Hearn, 1959). In so doing, they have prolonged misunderstanding.

Japan has always attracted myths. From the legend of the emperor's descent from the goddess Amaterasu to the recent academic excavations of the Japanese brain (supposedly more developed on the rational side) (Kiyoshi, 1979); and from comic book racial stereotypes to the traditional belief in the *seamless society*, concepts of uniqueness and indivisibility have clung to Japan. All societies like the idea of being special, and although Japan has clearly borrowed much of its culture from other parts of the world (China and Korea in the past; US and Europe in the present), it is arguable that the end-product is a unique synthesis — or, to use the current terminology: *Japanized* (Ichihashi, 1983). Complete isolation from the world between 1639 and 1854 certainly played its part in forging this self-consciousness. However, decades of foreign observations on Japan have played an equally important role in converting self-consciousness to myth. According to Gluck (1985), the distinctive ideologies of Japan have been invented, to suit circumstances, at key periods during its history.

Despite the perceived culture gap, modern Japan is very much connected with the rest of the world. Ten million of its citizens travel abroad each year (Edwards,

1990); its modern architecture, art and music draw on many international influences; its restaurants have perhaps the widest and most sophisticated range of cuisines in the world. To view the country as a unique Eastern mystery is therefore to see it through an old-fashioned lens. Japan is a fast-moving country where ideas are quickly out-of-date. What becomes clear to the visitor is that the Japan of image and reality does not precisely match the perceptions once held widely in the West. No wonder that direct experience of Japan affords so many startling contrasts.

To the outsider or inexperienced, Japan appears to be a very alien place. Tokyo, for example, is one of the world's most frenetic cities. In many ways it reflects its position as being at the centre of a technological hub. It is crammed with high-tech service industries, giant split screens and constant video images, incredibly complex over — and underground rail systems. It has a fast pace of life, in which there are crowded streets and subway trains into which passengers are crammed forcibly at some of the major subway intersections.

What is also true is that much of the subway system appears to be no busier than other major international cities such as Hong Kong, London, New York, Paris etc. And, in fact what can be witnessed in the Tokyo subway system most of the day is orderly queuing at the point at which the train doors open. In addition to a proliferation of narrow congested streets which abound in the suburbs, there are also beautiful boulevards coupled with a relatively low incidence of high rise buildings.

Japan may be full of contradictions, but it is not unfathomable. It is possible to feel at home in Tokyo no matter from where one originates as the Japanese appear to have a flair for the translation of foreign eating concepts just as they have a passion for foreign imitation in a quest to be "chic". Whether wine bars, Italian restaurants or whatever, the ambiances the Japanese have created are often very much more typical of the originals than appears the case in other sophisticated

Asian cities. Downtown Tokyo, however, is not representative of Japan as a whole. Tokyo, Fields (1983) averred, is not a city but a collection of 23 villages each of which has its own insular economies in the sense that much trade is contained within networks of local retailers and service providers. But having said that it is not typical, with just four per cent of the nation's land, it has more than 25 per cent of the population, 53 per cent of listed firms and 43 per cent of university students, most of whom will stay on to work in the capital after graduation. Tokyo offers the best job opportunities, the newest fashions, the widest choice of goods and life in Japan's most glamorous city. Its appeal is beamed out every day in television programmes and magazines to people around the country (O'Neill, 1992).

Japan's goods have conquered many foreign markets, and the country has greatly increased its foreign assets via a process of considered investments, mergers and acquisitions. In one year, 1988, Japan invested 4.5 times as much in developing foreign markets than the US\$10 billion its trading partners jointly invested in developing the Japanese market over a period of 38 years to 1988 (Lacktorin, 1989), with the result that Japan has the lowest level of foreign investment per capita of any of the major industrialized countries (Economist, 1993:66).

Yet, it is likely that many employees of non-Japanese multinational corporations (MNCs) own Japanese consumer goods and some of these people may be wondering why the companies on which their livelihoods depend have failed to develop market positions in what is the world's second largest consumer market. The firms' shareholders are certainly asking themselves the same question. Why do many Western concerns neglect or even spurn the opportunity presented by Japan as evidenced by the investment imbalance referred to above? Is it because of the difficulties they perceive in both the country and its markets? A central issue tackled in this thesis is whether these perceptions are matched by reality.

The problem is that there is a general perception that the obstacles in the

Japanese market are formidable (Grossberg, 1990). Many business people in the US, in particular, have developed a defeatist attitude toward Japan as they wait for the US government to resolve trade issues (Best, 1990). And, we hear and learn very little about the successes of foreign multinational corporations (MNCs) in the Japanese market (Grossberg, 1990). In order to compensate for this shortfall in the literature this thesis will attempt to redress the balance in some small way by analyzing a sample of foreign MNCs, primarily North American and European, which have achieved significant positions in the Japanese market and inducing from that analysis some strategic marketing implications. It will be argued throughout this thesis, the obstacles in the consumer goods industries are perceptual rather than real and the key to overcoming them is not to be found in Tokyo, but in New York, London or Bonn.

The research was concentrated in the consumer goods arena. The data was collected during 1990-91 and reflects the situation at that time. No attempt will be made to address the "post bubble economy". It will be shown that being far from impossible to penetrate the Japanese market, to develop a position in the Japanese consumer products market is plausible. What is required by foreign MNCs to develop a market position in Japan is implementation of the marketing concept to its fullest extent: the critical — and obvious — message being is that if MNCs can understand Japanese cultural differences, Japanese consumers and their needs, develop strategies which take account of the particular quirks of the Japanese market, primarily in terms of its high quality standards and sophistication, Japan offers great opportunities. Not only that, Japan is becoming the development ground for international markets. It is increasingly becoming a trend setting forum and companies with international interests will find it essential to establish a learning and monitoring presence there in order to hold their positions in their traditional markets. Interviews conducted with various foreign businessmen reinforced this conclusion: many of the perceived obstacles to doing business in

Japan are indeed perceptions and are largely relics of the past. As a major target for trade, Japan demands to be treated with, at the very least, the same level of zeal, professional and objective skill that companies apply in other key markets.

Much can be gained by identifying the ingredients of marketing success. In this attempt to glean a better understanding, a sample of successful MNCs was chosen on the basis of recommendations made by international management consultants operating in Japan and managers experienced in the Japanese business world. The selection included not only senior representatives of successful corporations, but also — to give a broader perspective to the data — distributors, consultants, advertising agents and other facilitators.

Because of the complexity and multifacetedness of the topic, face to face interviewing was relied on as the primary method of data collection. This was supplemented by desk research in libraries and access of other private data sources. In this way attempts were made to avoid some of the pitfalls of those other studies reported on. A paucity of in-depth findings resulted from previous research studies, so an attempt was made to gain a comprehensive picture about the issue — effective marketing strategies in Japan from a foreign company perspective.

Chapter 2 gives a review, based on published sources and interviews, of the opportunities and threats posed by the Japanese market. Starting with the macro economic picture, it proceeds to assess market obstacles presented by what is allegedly unfair Japanese business practices and examines the reality behind the so called conspiracy to block foreign imports theories; the difficulties of grappling with Japanese cultural barriers; selecting appropriate market entry modes; the Japanese tendency toward taking a longer term market perspective; the much vaunted complex Japanese distribution system, and the problems of obtaining suitably qualified staff. Also in Chapter 2 the characteristics of the market are scrutinized, in particular: the Japanese consumer, gift giving custom, market segmentation, buying concentrations and market opportunities. The Chapter

proceeds to assess the competitive environment by investigating the Japanese corporations (*kaisha*¹) as competitors within their home market and highlights some key characteristics which should be noted. In particular, it also examines the way that the Japanese harness their group culture to formulate corporate philosophies, gather market intelligence and compete aggressively.

The thesis proceeds in Chapter 3 to develop the theoretical background by reviewing the literature on strategic management and marketing in order to demonstrate the complexity of the subject and thus pinpoint the danger of searching for a narrow solution derived solely from the marketing literature. In this way some methodological approaches toward the research will be discarded and a basis provided for others. The strategic model presented in Figures 3.3 and 3.5 to 3.7 influences the overall structure of the thesis and a particular framework is identified (Porter, 1990) that is utilized in Chapter 6, whereas review of the international marketing literature revealed a particularly salient topic: the standardization versus adaptation debate.

Chapter 4 builds on Chapter 3 by arguing that the topic under consideration involves the behaviour of enterprises and their constituent organizations. It reviews some previous research by this author and shows that, in performing any such investigation, there are several different methodological approaches which could be adopted, but that the validity and cost of applying them varies. The available selection is ample, it involves both quantitative and qualitative approaches. On the basis of past experience referred to and the nature of findings from other studies a qualitative methodology incorporating the principles of grounded theory is favoured: involving face to face interviews conducted in Japan with key representatives of foreign MNCs that have successfully developed a position in the

¹ The practise, often applied in the literature of using Japanese terms, will be followed in this thesis. Such terms will be italicized.

Japanese consumer products market.

Having distilled from the literature an assessment of opportunities and threats that was presented in Chapter 2, Chapter 5 assesses the responses which foreign MNCs, as reflected by the companies selected for study, have made. Attempts are made to pull the foregoing into a cohesive entity and highlight successful consumer goods strategies for the Japanese market. These involve probing consumer fundamentals via marketing research; determining the optimum mode of market entry; formulating responsive corporate strategies; formulating an aggressive and dynamic product strategy; managing the communications process and developing distribution strategy. Two key frameworks derived from Porter (1990) and Quelch and Hoff (1986) are rolled forward to Chapter 6 and used as a basis to analyze the sample of companies. This framework identifies three dimensions of global marketing: business functions, products, and marketing mix elements. Along each of these dimensions the companies are classified according to the degree of standardization which is imposed or the degree to which the companies have adapted their operating standards to the Japanese context.

Overall conclusions are presented in Chapter 7, these show that the Japanese market, far from being mysterious and impenetrable, can be penetrated by straightforward application of the marketing concept which has much to offer for foreign MNCs as well as Japanese companies. Failure often derives from foreign MNCs neglect to take account of such fundamentals. Moreover, if companies can learn to compete in Japan then that expertise may offer major potential benefits in other markets. Conversely, to fail to do so will render their positions vulnerable to attack in their traditional markets by Japanese and other competitors offering higher quality and more up to date consumer solutions.

SUMMARY AND IMPLICATIONS

There are many misunderstandings regarding what makes Japan successful just as there is little appreciation of what is involved for foreign companies to become successful in the Japanese market. Therefore the objectives of this research study are to explore the reality of this situation; to explode or support the myths surrounding the Japanese market and by so doing analyze the self reported experiences of a sample of foreign MNCs which have successfully developed a presence in the Japanese market and appraise the effective consumer goods marketing strategies for Japan from the perspective of foreign companies.

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CHAPTER 2 — JAPANESE OPPORTUNITIES AND OBSTACLES

2.1. INTRODUCTION

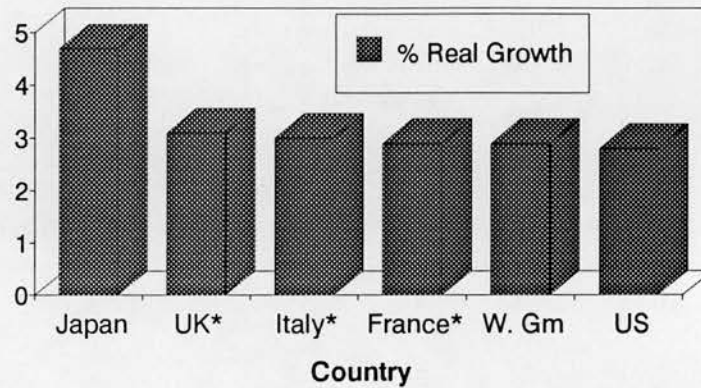
In Chapter 1 it was suggested that many people: employees, consumers and stockholders must find it perplexing that their indigenous companies are ignoring the Japanese market and the opportunities that are offered. In this chapter, by drawing on published sources as well as some interview material, an attempt will be made to highlight the scale of that opportunity and to reveal the truth about the obstacles that exist. Using a funnel approach (Chisnall, 1981:145), by starting with the broadest issues and progressively narrowing to the micro level, the chapter explores:

- A macro economic viewpoint
- Obstacles to trade
- The competitive environment
- Market characteristics.

2.2. A MACRO ECONOMIC VIEWPOINT

Without doubt, Japan offers attractive opportunities to consumer goods' producers. It comprises a large population — approximately 124 million in 1990 — many of which is as wealthy and sophisticated as any group of its leading trading nation counterparts' affluent citizens. This populace represents a sizeable consumer market with powerful spending ability, in which rapid change generates myriad product opportunities.

**Figure 2.1 GNP/GDP
Growth Rates 1985-89**



Source: Anzai (1991)

There is no question that Japan has given fresh meaning to the term "economic miracle": from 1985 to 1989, the country's GNP growth rate exceeded that of the six major Western industrial economies (see Figure 2.1) and brought it to the position of the second most significant economy in the world (see Figure 2.2). The notion of "economic miracle" is not new. Rapid growth in Japan occurred during 1946-51, the years of the US occupation. Even into the 1950s it seemed no great surprise that Japan continued to muster GNP growth rates approaching 10 per cent because of its proximity to Korea and its ability to benefit from the Korean War. It was only after the mid-1950s that it became the central topic of Japanese economic debate. Reviewing the role of central policy making in this success, Morris-Suzuki (1989:132) indicated that many writers have emphasized the pivotal role of MITI and the Bank of Japan, more recently, however there has been a tendency to argue that the significance of MITI has been exaggerated:

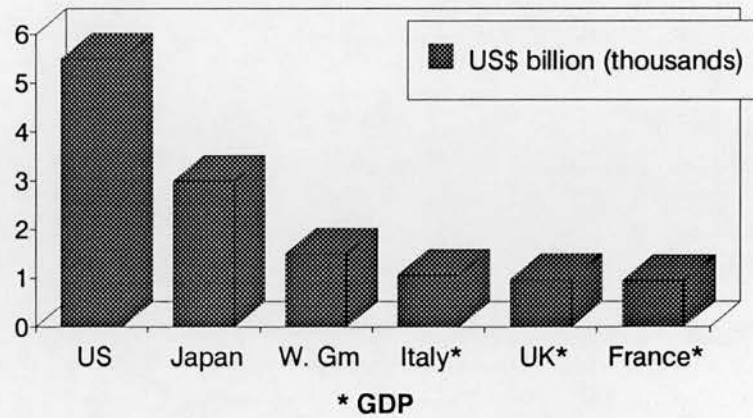
Far from being the outcome of the planning of a small elite, Japan's high growth rate was achieved only as the result of the high rate of saving by the people, by their will to work, and by the vigorous efforts of Japan's entrepreneurs (Kosai and Ogino, 1984:120).

It is also a fact that the central authorities avoided the hindrance of economic processes that had gained its own momentum: It was primarily the efforts of the people, mainly in the industrial world, which produced economic growth. However, this is not to say that the economic policy played no role in the process.

It is a fact that the economic policy making authorities at first underestimated growth capacity, and it is also a fact that once growth had begun, they made every effort to sustain it and strove to remove obstacles to it (Nakamura, 1981:80).

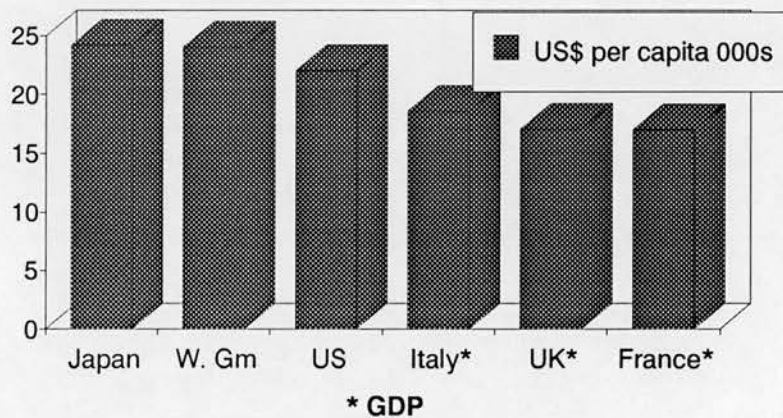
Sheer market size makes Japan attractive to many exporting companies world-wide, but population is only part of the picture: in 1990, Japan generated a GNP of US\$3 trillion, placing it second after the US (then US GNP was approximately US\$5.5 trillion Figure 2.2). This statistic disguises that on a GNP per capita basis, Japan exceeds not only the US, but also all its major international competitors (see Figure 2.3).

Figure 2.2 GNP/GDP 1990



Source: Global Forecasting Service Business International 1990-91

Figure 2.3 GNP/GDP per capita 1990



Source: Global Forecasting Service Business International 1990-91

Japan's average per capita income in 1970 was just 40% that of the US figure, but by 1990 it had surged ahead, topping US levels by more than US\$2,000.

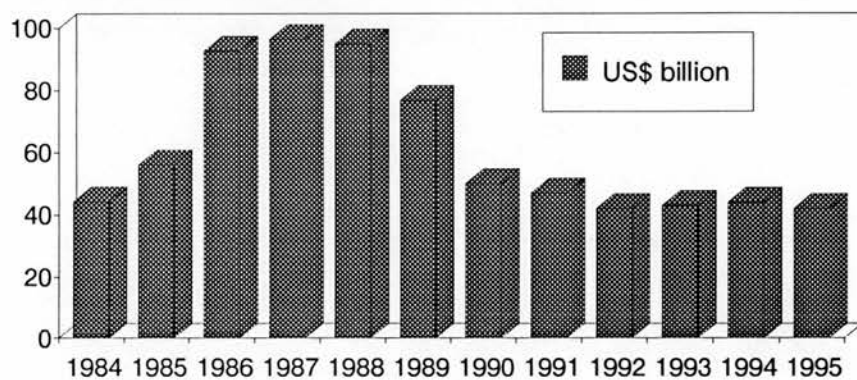
Moreover, the domestic market is both massive and highly sophisticated: Japanese consumers now demand a comprehensive range of goods and services, creating an enormous potential market for MNCs in almost every industry.

Although in GNP per capita terms, Japan is the world's second wealthiest nation after Switzerland (Business International, 1991); these figures do not necessarily translate into consumer wealth. There are other ways to measure the well-being of a population, and to focus solely on GNP per capita can be misleading. For instance, certain infrastructural provisions in Japan lag behind those of its industrial counterparts: only 65% of Japanese roads are paved in contrast to the UK and former West Germany, where almost all are sealed. No more than 41% of Japan's population is served by main drains, compared with 95% in the UK, and 73% in the US. Only 20% of the electric cables are buried beneath the streets in Tokyo, while in London and Paris they are all below the surface (Economist, 1991a).

The Japanese are however less well off than their US or European counterparts because of high local price levels. A 1988 study by the official Economic Planning Agency examined 400 products and concluded that Tokyo prices were 40-50% higher than in New York and Hamburg. At around the same time, the Organization for Economic Co-operation and Development (OECD) concluded that overall, Japanese prices were 57% above those in the US and these prices were often not fully offset by salaries (Smith, 1990). Since the magnitude of GNP is determined by exchange rates, these comparisons are always clouded by currency fluctuations; however, using purchasing power parity (PPP) as a measure of international prices avoids this problem because it focuses on the quantity of goods and services that can be bought by different currencies. This measure shows that during 1985, for example, when the yen was valued at around ¥218:US\$1; the PPP value was at a similar level. When the yen strengthened to ¥128:US\$1, ¥201 was still required in PPP terms to buy one dollar's worth of merchandise (Rowley, 1991). In this sense, the yen is overvalued and the domestic purchasing power of yen incomes is low

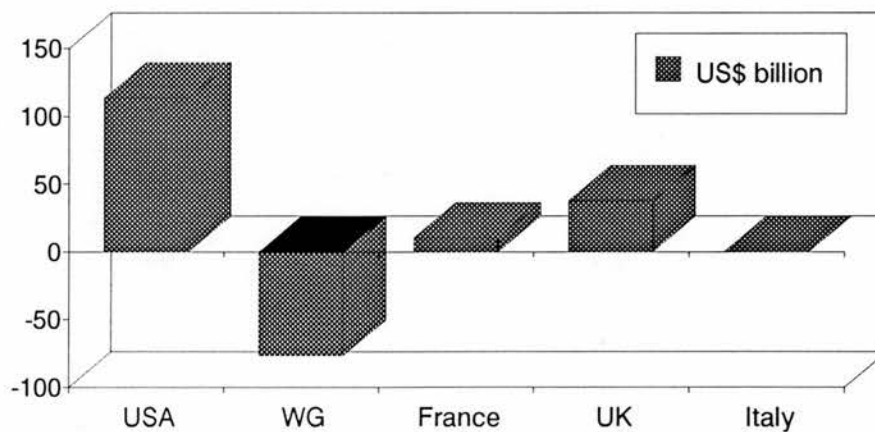
when compared with nominal incomes in other countries, although there are some items that might be considered relatively inexpensive in Japan such as automobiles, beer, cigarettes and clothes at the bottom end of the market.

**Figure 2.4 Japan's Trade Balance 1984-95
(1990-95 Forecasts)**



Source: Global Forecasting Service Business International 1990-91

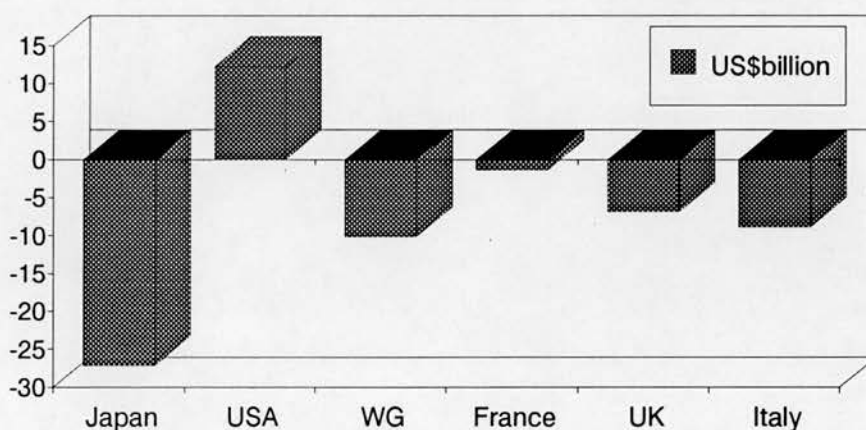
Figure 2.5 Balance of Trade



Source: IMF, International Financial Statistics, Anzai (1991c)

Japan has a large trade surplus with many of its trading partners (see Figures 2.4 and 2.5). By 1989, it had run surpluses for the previous five years, although figures for 1990 showed a drop of 8.4% to US\$54.5 billion. This trend is forecast to continue down to levels of approximately US\$42 billion by 1995. However, since Japan is virtually devoid of mineral resources, it is highly dependent upon imports of fundamental commodities. In 1988, Japan incurred a net balance of trade loss of US\$27 billion on imported raw materials (see Figure 2.6). Its balance of trade deficit on crude oils and other fuels amounted to US\$56 billion (see Figure 2.7), equivalent to 96% of the US deficit on the same account and for a population half the size of the US.

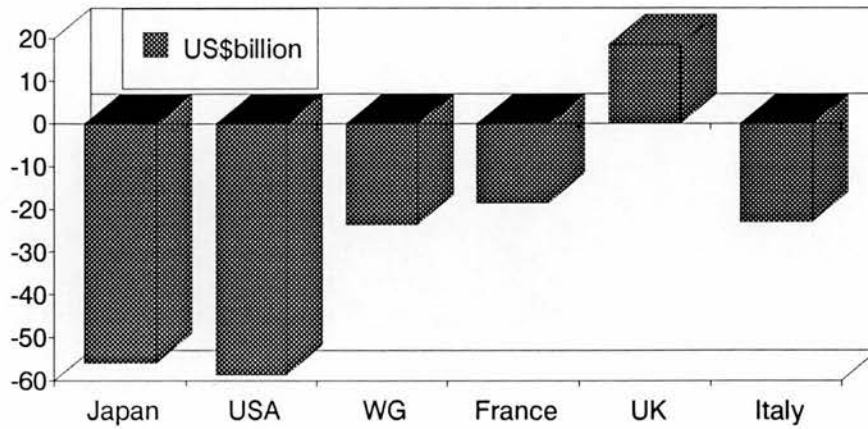
Figure 2.6 Net Balance Trade Raw Materials



Source: OECD Statistics of Foreign Trade

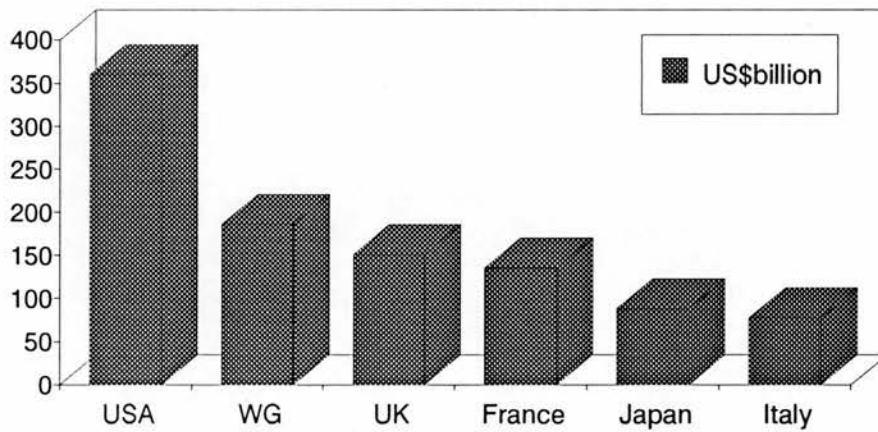
Despite its high profile with GNP performance, Japan imports fewer manufactured goods and other high value-added commodities than most of the other "Big Six" (see Figures 2.8 and 2.9). Its high value-added imports are dwarfed by those of the US.

Figure 2.7 Trade Balance Fuels and Crude 1988



Source: OECD Statistics of Foreign Trade

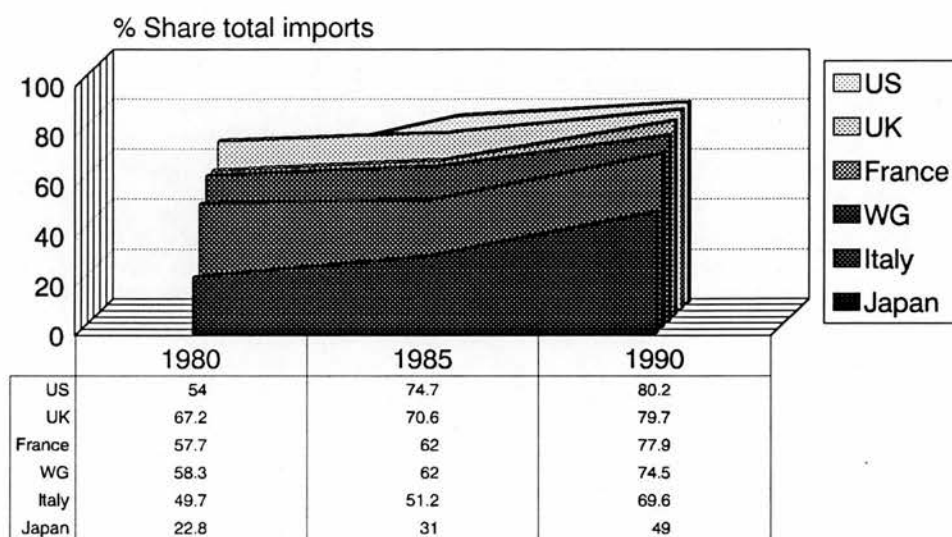
Figure 2.8 Import of Manufactured Goods 1988



Source: OECD Statistics of Foreign Trade

Figure 2.9 Imports manufactured goods

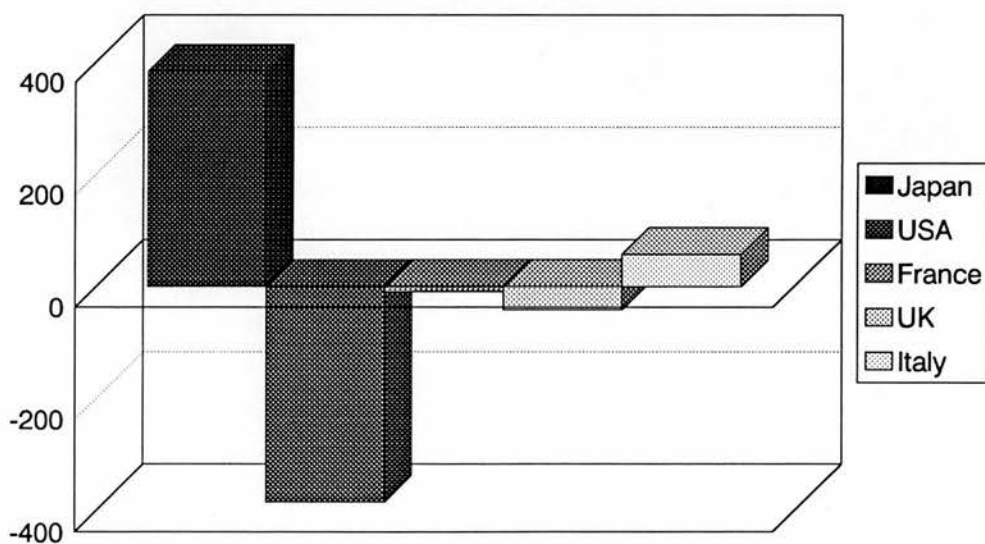
1980-1989



Source: OECD Statistics of Foreign Trade, (Anzai, 1990)

Figure 2.10

Trade balance value-added items 1989



Source: OECD, Statistics of Foreign Trade 1987 (Anzai, 1990)

Clearly Japan spends less on importing manufactured goods than on commodities (see Figures 2.9 and 2.10), but current trends offer greater hope for

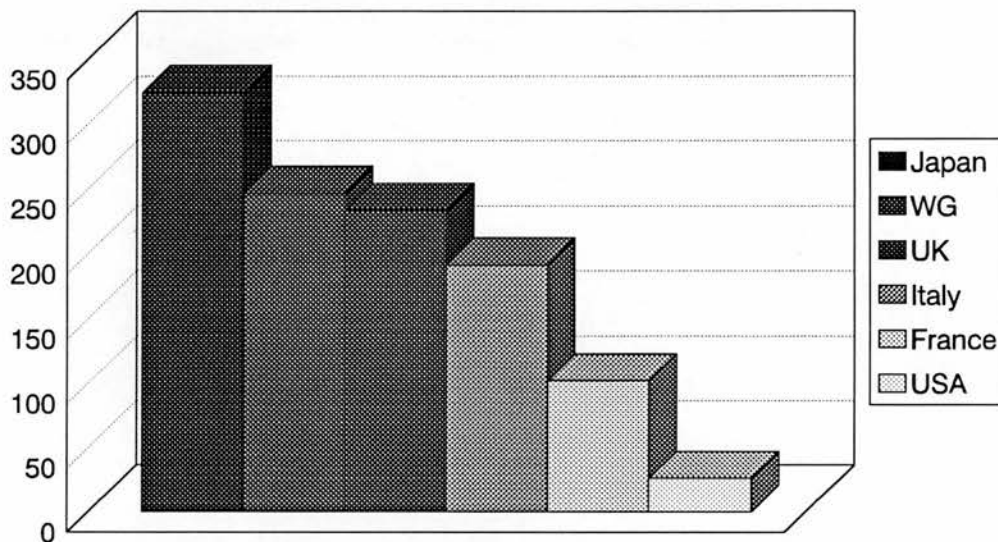
companies eager to secure a slice of its domestic market. As the country's trade surplus with the world begins to decline, manufactured goods represent an ever growing portion of its imports' bill, of this a good percentage is accounted for by consumer products. The strength of the economy as indicated by the above figures is precisely the reason why Japan's modus operandi is so heavily criticized by foreign concerns. The country compensates for its lack of natural resources through an ingenious "value-added" strategy: Like the former West Germany, its economic clout derives from its ability to convert its materials imports into products prized by consumers world-wide. Japan adds greatly to its surplus by exporting high value-added items such as machinery, vehicles, industrial products and manufactured goods (see Figure 2.10). At the same time, it is strengthening its tertiary educational infrastructure to support the growth of its research and development capabilities. In 1988, 37% of the potential age group continued on to higher education, compared with 44% in the US, and 24% in the UK (Anzai, 1991e).

Despite major and unprecedented success in both world markets and GNP per capita terms, the majority of Japanese still consider themselves poor. These attitudes are rooted in common belief and are strongly linked to the country's shortfall of mineral and other natural resources. Japan's success is consistent with this belief, since it is primarily based upon manufacturing ingenuity. With the highest population density of any of its major competitors (see Figure 2.11), Japan must leverage its habitable land resources at a rate four times that of former West Germany (see Figure 2.12). This means that only 4% of available land in Japan is harnessed for dwellings (see Figure 2.13). Combined with a booming economy, these structural conditions have caused a revolution in property values, residential land prices in particular increasing at a dramatic pace. According to the Japan Real Estate Institute, the city residential land price index increased from a national base of 100 in 1955, to 15,456 in 1989; in the same period, and at the same base level, the consumer price index increased only five-fold, to 520. Consequently, the

provision of residential buildings lags behind that of comparative countries.

Moreover, the houses have smaller floor areas (see Figure 2.14), which in Japan is measured in *tatami*¹ — a traditional straw mat floor covering. In 1988, the average number of *tatami* per dwelling was about 31 or 90 square metres.

Figure 2.11 Population Density



Source: U.N. Monthly Bulletin of Statistics (Anzai, 1990)

1 There are different sizes of tatami that apply in: 1. Old style country houses; 2. Urban accommodation; danchu — apartment blocks.

Figure 2.12 Population & GNP density
per habitable area (1988)

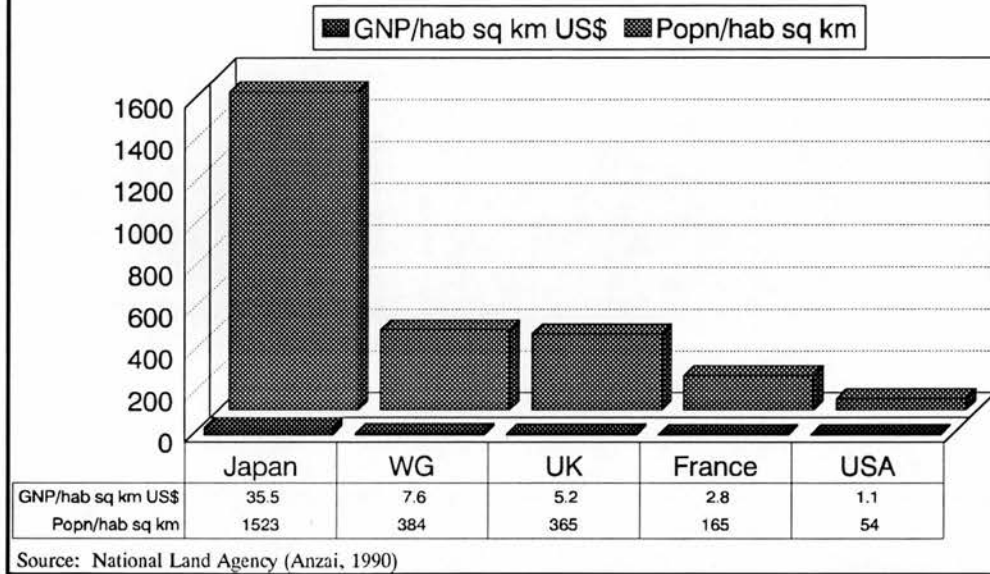
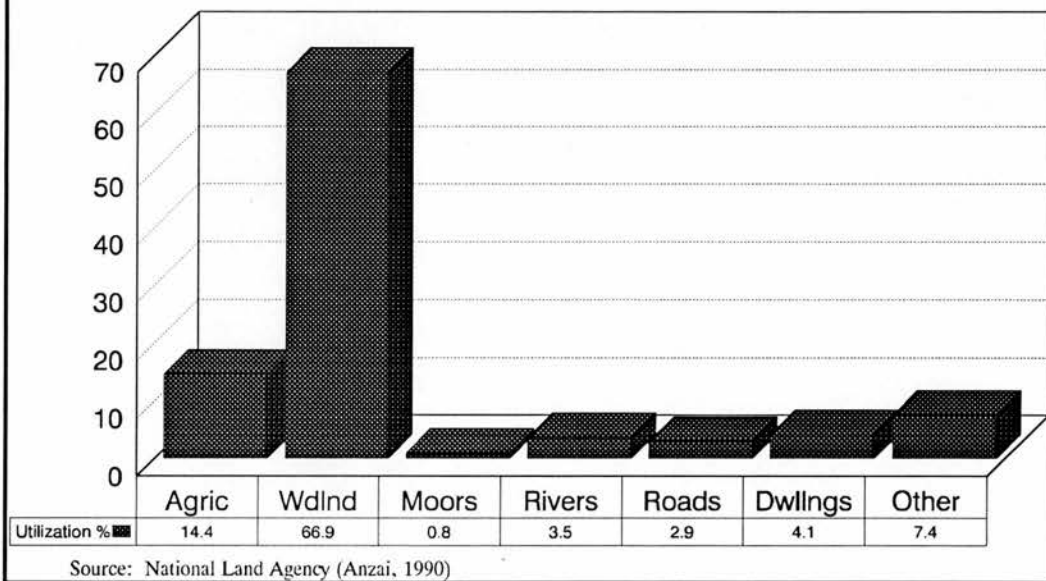
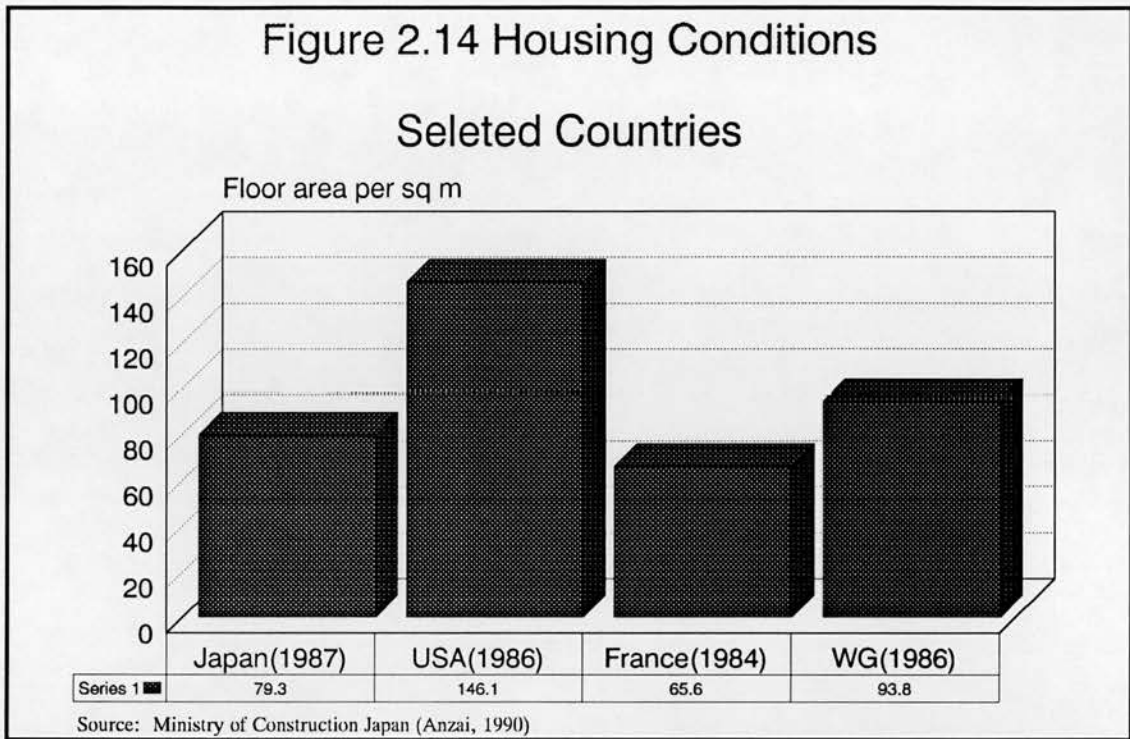


Figure 2.13 Land Use in Japan
1989





Urban houses are not only small², they are often unaffordable and while some Japanese may be fortunate enough to inherit property, the majority do not (Smith, 1990). The lucky group, 62 per cent of families according to Neff et al. (1990) who can claim to be property owners now forms a new wealthy segment of the population (see Chapter section 2.3.1 for a discussion of their buying behaviour), but those less fortunate must usually abandon hope of ever owning their homes. One plan under discussion is the introduction of 100 year mortgages that would obligate children and grandchildren (Neff et al., 1990). Individuals in this latter category, according to market research concerns interviewed, form an important part of the market in their own right, since they spend money that would normally be put towards a mortgage on travel, eating and clothing. Regular outgoings common in industrialized countries are not necessarily usual in Japan, for example,

² Much generalization occurs around the "Japanese live in rabbit hutches" theme and while urban housing is cramped these stereotypes do not fit country farm houses and some other types of housing outwith the urban areas.

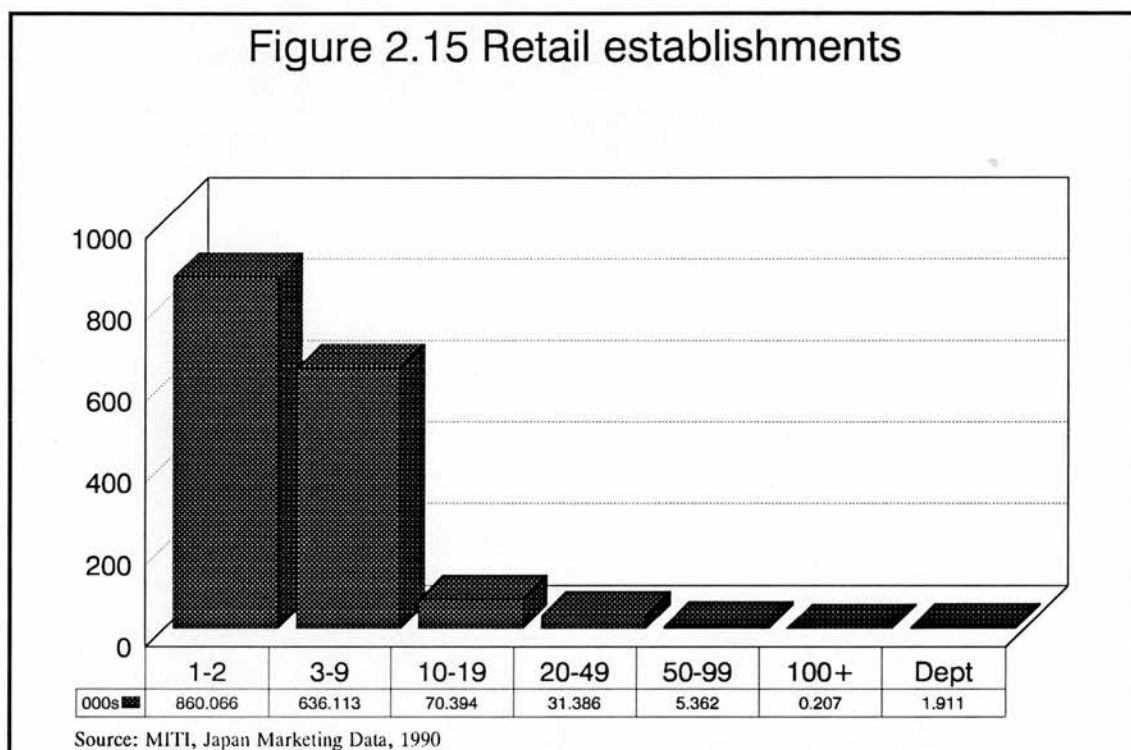
those (77% of households) which can afford to buy and run a car may find themselves stretched to bear the cost of parking it — should they even have access to a suitable space (Smith, 1990).

The value of Japanese land is so high that it presents barriers to investment while simultaneously providing massive collateral for Japanese companies to make acquisitions elsewhere, for instance, the area on which the Imperial Palace is located in Tokyo has a real estate value greater than the entire state of California. It has been suggested that Tokyo is so highly priced, that the yen would need to be devalued to about ¥15,000 to the US dollar to achieve purchasing power parity in the real estate market (Smith, 1990). One of the consequences of this situation is that the Japanese have harnessed this collateral and thereby gained strong positions in other countries' economies — a point that has exacerbated frictions with major trading partners.

In April 1991, legislation was approved by the Diet for a new land holding tax designed to curb the land price spiral by making it more costly to own land for speculative purposes. Japan's previous land tax policy penalized those who sold land but virtually exempted farmers from fixed property taxes, even if their holdings happen to be in large cities. This bias had the effect of restraining land transactions while simultaneously inflating notional land values, and because more than half the ruling Liberal Democratic Party's (LDP) MPs depend on support from the farming community, policy changes were avoided lest they lead to hostility and undermine the party's position.

A similar problem exists concerning the potential dismantling of the *keiretsu* structure, in theory, the LDP could revise the commercial code and require banks to list their stable share holdings at market price rather than at book values, but again this jeopardizes large blocks of its support (Smith, 1990). However, repeated pressure by the US urging Japan to loosen the hold of *keiretsu* ties is beginning to show some progress. In May 1991, US requests included removing the anti-

competitive aspects of cross-share holding among *keiretsu* groups; strengthening minority shareholders' rights; and facilitating mergers and acquisitions (Economist, 1991a). Although all these points are being considered by the Japanese, the only move to date has been a pledge to review minority shareholders' rights and ask the Diet to instigate the necessary changes.

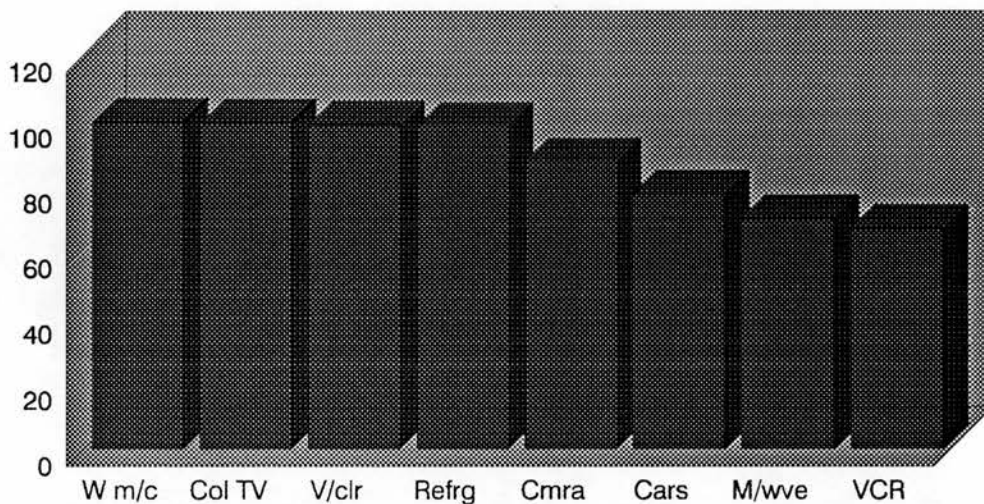


The domestic economic picture is unlikely undergo radical change soon. While Japan has recently entered a relatively low-growth phase, its GNP growth rate still remains 1-1.5% higher than the rest of its major trading partners (see Figure 2.1). The Japanese economy has responded with remarkable resilience to the challenge of the strengthening yen. After a brief slowdown to 2.5% in 1986, Japanese real economic growth bounced back to 4.7% in 1989, 5.6% in 1990; and it looks set to stay above 3% for the rest of the century (Business International, 1991a; Economist, 1991c). Since GNP growth rates in other OECD nations are likely to remain between 2% and 3% in the future, the Japanese share of global GNP will

continue to grow, giving its consumers ever-greater purchasing power.

Many have wondered whether buying clout has led to a saturation of the Japanese consumer market. On the surface it appears so: 99% of Japanese homes have refrigerators, colour television sets and washing machines (Anzai, 1991f). On the other hand, local consumers have demonstrated a willingness to dispose of and update consumer goods with regularity; hence, the challenge for producers is to engage in more aggressive product planning, coupled with creative marketing strategies. The pay-off for this kind of investment is likely to grow in to the 1990s, especially considering MITI's pronouncement that in the next decade the average citizen should enjoy a greater share of Japan's affluence, work shorter hours and take longer vacations (Palmer, 1990; Rapoport, 1990). As a result of pressure from within the country and from major trading partners, official weekly working hours have been reduced twice in the last five years from 48 to 44 — a trend the government believes has now been adopted by companies. Nevertheless, the Japanese remain hardworking and richer than anyone else (Rapoport, 1990). The average annual work time remains 200 hours above US and UK totals, and 400 above levels in France and former West Germany (Anzai, 1991f).

Figure 2.16 Ownership of consumer durables by household March 1989



Source: Economic Planning Agency (Anzai, 1990)

2.3. MARKET OBSTACLES

In the previous section some impression was given of the scale of the opportunity presented by the Japanese consumer goods' market. In this section the reality of the myths behind Japanese market obstructiveness will be explored and the question will be addressed whether despite the rosy economic picture the Japanese market for consumer products is indeed open.

2.3.1. TARIFFS AND TRADE

Every country has traditionally protected its indigenous industries and interests by maintaining control over market access and entry (Keegan, 1989). This control ranges from singular resource based restrictions such as those which apply to fishing rights and extend to more high tech applications such as broadcasting and communications. In July 1989 there were 21 product groups, largely agricultural

and fishery commodities, still subject to quantitative restrictions in Japan, compared with 490 product categories in the 1960s (Shapiro and Hamilton, 1990). Most measures of control can be categorized as tariff or non tariff barriers.

2.3.1.1. Tariff systems

This system of control provides for either a single rate of duty applicable to all countries, or two or more rates applicable to different countries or groups of countries. As Keegan (1989:529) illustrated, tariffs are usually grouped into one or two classifications: single column and two-column. The former consists of a schedule in which the rate applies to imports from all countries on the same basis, whereas in the second this initial single-column is supplemented by a second column of "conventional", that is agreed by some convention, duties that shows reduced rates agreed through tariff negotiations with other countries. The conventional rates are those applicable to all countries enjoying MFN (most favoured nation status) under the GATT (General Agreement on Tariffs and Trade) under which all nations agree to apply their most favourable tariffs to all nations that are signatories to the agreement, with some notable exceptions.

2.3.1.2. Non Tariff Barriers

Sometimes non tariff barriers have a legitimate place in the policy making of sovereign states, but on other occasions they may represent structural impediments. For example US regulations on automobile exhaust emissions may seem reasonable requirements to the US environmental lobby but be viewed as a non tariff barrier to foreign motor manufacturers that are not yet producing to the US standards, whether they are fair or not is a question of judgement. The major types of non tariff barrier are: quotas and trade control, discriminatory policies, restrictive customs procedures, selective monetary controls and discriminatory exchange rate policies, restrictive administrative and technical regulations (Keegan, 1989:532).

The strong positions gained by the Japanese in foreign markets has caused friction with its major trading partners. These differences in viewpoint stem primarily from: (1) Japan's policy on land holdings³, and (2) the *keiretsu* system — the interlocking network of share holdings between major companies (including banks), coupled with an array of other relationships and obligations.

2.3.2. OBSTACLES OR OPPORTUNITIES?

As interviews will later indicate, there are no insurmountable obstacles to penetration of the Japanese consumer products' market. Barriers often stem from the attitudes and shortcomings of foreign companies, and it is not uncommon to find MNCs that lack a comprehensive understanding of both the Japanese market and the local way of doing business. Many business people, in the US in particular, have developed a defeatist attitude toward Japan as they wait for the US government to resolve trade issues (Best, 1990). However, as will be argued throughout this thesis, the treatment for these deficiencies is not to be found by mustering political onslaughts toward Tokyo, but by taking courageous business decisions in New York, London or Bonn.

Outside pressure is one technique being used to expand access to the Japanese market (Economist, 1992b). Some executives, although they feel that constant vigilance is necessary to open the market, are concerned about the confrontational tactics employed by US companies and government negotiators. Although legislative obstructions may be bogus, structural obstacles remain — varying in strength between sectors and multiplying in the high-tech industries (Berger, 1990). Nevertheless, there are some specific problems that MNC marketers continually revisit to explain either entry difficulties or lack of success in the Japanese market.

³ The result of this is a high cost of land and was discussed earlier.

These are:

- Cultural difficulties and *nihonjinron*
- Unfair Japanese practice;
- Distribution;
- Market acceptability;
- Modes of market entry;
- Long termism;
- Staff.

2.3.2.1. Cultural difficulties and *Nihonjinron*

The ACCJ's 1990 position paper on US-Japan trade urges US companies wishing to do business in Japan to show greater sensitivity to culture. It argues that the US: "...must co-operate to create a climate of positive support for exports. It has been indicated elsewhere that cultural difficulties are more frequently encountered obstacles than legal barriers and tariffs (Peak, 1991). I shall therefore continue by giving a brief review of aspects of Japanese culture — a topic which has a rich and varied literature, for example Van Wolferen, 1989; Emmott, 1989; Hofstede, Neuijen and Sanders, 1990; Gluck, 1985; Yoshino, 1992; Moeran, 1988; Moeran, 1989; Moeran, 1990; Nakane, 1973; Valentine, 1990 — that are germane to the impediment of business development in Japan and try to avoid the temptation of drifting too far into the world of social anthropology.

In interpreting what is written about Japan, great care must be taken so as not to be duped by much of the tendentious writing and word of mouth communications on the subject. The term that embraces this tendency — *nihonjinron* — was introduced briefly in Chapter 1.

As an illustration of how Japan attracts myths and promotes contradiction, Dale (1986:16) writing about the elite Japanese universities highlighted that despite their prestige they had attracted conflicting judgements from outside. For example,

Havens (1973) noted that Kyoto and Tokyo Universities are "characterized by an openness, vigour, and imagination — probably reaching as close to the ideal of free inquiry and the unbiased search for truth as has any other institution in Japan or elsewhere." Whereas (Mills, 1977) takes a polarized perspective "...little of what contemporary Japanese scholars write and publish in Japanese could be published intact in a literal English translation without becoming the butt of amazement and even ridicule abroad. Yet these works, which are widely read in Japan, are by eminent men writing in their own fields."

Partly, the confusion has been caused by deliberate efforts to reshape Japanese identity from time to time. According to Gluck (1985) the distinctive ideologies of Japan have been invented at key periods during its history. *Kokutai*, the concept of a mystical national polity, was turned to many uses including that of exhorting everyone to participate in the acceptable mode of thought (Gluck, 1985:15). Altering the *kokutai* was included as a crime against the state in the Peace Preservation Law of 1925. By the 1930s, *kokutai* appeared, in lower school textbooks as well as in ideological tracts, usually in lofty, mystical, and sometimes impenetrable description. The first paragraph read:

"The unbroken line of Emperors, receiving the Oracle of the Founder of the Nation, reign eternally over the Japanese Empire. This is our eternal and immutable kokutai. ... We must to begin with, know with what active brilliance this fountainhead shines within the reality of the founding of the nation."

No one in the 1940s was supposed to know anything about the *kokutai* but they were supposed "to feel it" (Gluck, 1985:283). Yet, even today the Japanese authorities maintain close control of their invented history and are selective about which parts of it is reflected in school textbooks. This invention process was sustained by what Gluck termed *suasion*, the effect of which outweighed coercion. This process of *suasion* was sometimes moral, sometimes social, and sometimes institutional, as it was in the schools and the military.

Even in Emperor Hirohito's radio broadcast informing his people of the end of the war he proclaimed that *kokutai* had been preserved. Later in 1946 conservatives in the government and the Diet asserted that the post war Constitution would not result in change to the *kokutai* although by this time its meaning had begun to wither in favour of the existence of the imperial institution. However, Gluck (1985:285) noted that the militaristic (*tennosei*) ideology of the 1930s was quickly abandoned, according to scholars, because the relation between experience and ideology had become so strained that the official ideology was relatively easy to abandon once the institutional apparatus that sustained it was dismantled.

Nihonjinron was characterized by Dale (1986:14) as 'the commercialized expression of Japanese nationalism. "...It gathers within its ample embrace writings of high seriousness imbued with deep, often specious, erudition, all the facile dicta of interpretative journalism." As he put it, girls who have been sexually assaulted can console themselves that in Japanese tradition love follows rape. Everything from the distasteful tedium of the factory line to daily violence can be made to resonate with archaic significance. In this way the *nihonjinron*, "Through the consistent linking by analogy of the hallowed past with the haggard present, tend to sanctify the hollow banalities of the contemporary world."

Two groups, according to Yoshino (1992), are normally prominent in the development of cultural nationalism: intellectuals who formulate ideas and the intelligentsia (well-educated social groups) who respond to such ideas and relate them to their own situations. He (1992:164) drew attention to the gap that exists in the Westerners' image of Japan: on the one hand there is the popular image of Japan as a manufacturing base for electronic products; on the other there is the orientalist image of exotic Japan, a view reinforced by Mishima's novels and the movies of Kurasawa. These circumstances have offered a change of propagandist pattern and provided Japan's business elites with an opportunity to act as spokesmen for the majority of ordinary Japanese on the subject of Japanese social culture. In

explaining how ordinary Japanese people behave they have often reinterpreted the theories of Japanese academics through their own experiences. Yoshino (1992:167) revealed that many of his research respondents had learned about such theories as Nakane's Vertical Society in this way. He cautioned that it was not possible to say how much recycling of academics' ideas occurred with the originality of their ideas, but stressed that these business elites play a key role in the diffusion of ideas of Japanese uniqueness.

Various linguistic forms (e.g., pronominal usage, honorifics, & donatory verbs), according to Moeran (1988), reflect the division of Japanese society into an apparently infinite series of in-outgroups. He showed how the use of vocabulary and key words serves to overcome this social differentiation, to create solidarity among these groups, as well as enforce a sense of "Japaneseness" vis-à-vis the outside, primarily Western, world. In a later work Moeran (1990), borrowing from Said's (1979:1) definition of orientalism, describes the practice of "Japanism" as a way of coming to terms with Japan that is based primarily on Japan's place in Western European and American experience. Japanism he notes is a mode of discourse, a body of knowledge, a political vision of reality that represents an integral part of Western material civilisation both culturally and ideologically. Japanism exerts a three way force — on Japan itself, on Japanists, and on Western consumers of Japanism. The process of Japanism not only marks Japan as the province of the Japanist but also forces the uninitiated Western reader to accept Japanist codifications...as the true Japan. Moeran (1990) claims that Japan even confuses the Japanese. In his attempts to "unwrap" Japan he notes that tensions have existed over many centuries as a result of older generations attempted control of the young by insisting that the proper form of honorific language is applied, just as employers today complain about the standards of Japanese school leavers and their inability to use the correct forms when occupying job positions as company receptionists or telephone operators.

In Japanese social interaction, Valentine (1990) noted that it is vital to adopt suitable form and to know how to behave appropriately. To accomplish this one must define the situation correctly, and in particular know who the other is and where he belongs. Especially crucial is the designation of the other as belonging inside (*uchi*) or outside (*soto*). Since people are defined by where they belong, their frame (Nakane, 1973:2), it is important that they do not change it too often or their "belongingness property" is likely to become ambiguous resulting in their loyalty becoming suspect, which, according to Valentine (1990:24), arouse not only suspicion but contempt. He noted that being on the margin can mean being even more of an outsider than a true outsider. He provided the example that someone of mixed Japanese and foreign parentage is more rejected than a pure *gaijin*. This marginality extends to Japanese born abroad and even to returnees from various types of foreign posting. Surprisingly, what he also found was that men that change companies frequently encounter little in the way of exclusion, but men who did not drink alcohol were marginalized as a result of their inability to participate fully in the socializing that forms an important part of Japanese business life. Worse still, he noted, is a woman in a "man's" occupation.

During drinking sessions what is said is supposed to be soon forgiven and forgotten. Drinking acts as an outlet for repressed feelings. It is only when drinking that a junior member of a team may criticise his senior and for that criticism to be accepted. However Moeran (1989) noted that not only was information stored that was acquired in these sessions it was used to pursue political gains. He found that there were major disparities in the form of the language used, and between "official" declared descriptions of respondents' roles and positions and those that were revealed during the drinking sessions with the same individuals. Topics that provoked only embarrassed smiles and evasions during the day were discussed intimately and frankly in the context of drinking sessions.

Professional women (unless they are in women's professions) are, according to

Valentine (1990), neither in their proper place, nor fully accepted and are potentially rejectable by males and females. In his analysis of Japanese cultural forms Moeran (1989) noted that the "group" model of Japanese society was primarily male and women were frequently portrayed as being "polluted" unless they adopted the mantle of good wife and wise mother. Even in advertising, where stereotypes were questioned, the underlying ideology supported the male dominant model.

Despite the existence of influences that cause tensions in Western societies, Moeran asserts that Japanese society does appear to function well, but it is more stratified than is commonly imagined. For example, the use of the Japanese language prevents a Japanese speaker from using it neutrally. The speaker, he maintains, always ends up being "higher" or "lower" than the other person. So that when mention is made of the Japanese group ideal what is overlooked is that it is a rather elite model based on samurai values. He asserts that leaders are leaders because they are able to "lower" themselves and be seen to mix with those of the lowest social order. Although status differences may exist, Moeran argues, no one is absolutely superior or inferior, social divisions are blurred in such a way that "...the Japanese do seem to be one happy family".

With consensus a feature of Japanese society, group values are of critical significance. They are emphasized throughout childhood and formalized in the educational system. One of the most frequent threats that Japanese mothers use on their children is that they will be made to go stand outside the house as a symbol of their disenfranchisement from the family group. In schools, this group mentality is built up in various ways, one of which is a kind of self-policing by the group. For instance, school children are often responsible for cleaning the school at the end of the day, new children are put into the care of children a year their senior, just as in an English public school; they in turn have someone a year their senior to take responsibility for them. The onus is on the children themselves to ensure that

boisterous students sit quietly before teaching starts. In this way, vertical groupings are formed.

Over the centuries, Japan's rich and distinctive culture has embodied and harmonized many conflicting philosophies, often imported from overseas. Ichihashi (1983) refers to Japan's propensity to import, adapt and adopt things from the outside as a "third value," in other words, one that is neither the imported element per se nor the original Japanese culture. This phenomenon (Ichihashi, 1983), which is also referred to as *Japanization*, has great importance for both manufacturer and distributor, especially when considered in tandem with Japan's extremely strong group ethic. The Japanese orientation toward group values plays a major role in consumer behaviour. For foreign MNCs, Japanization and the peer group mentality means that success in Japanese markets hinges on the ability to "Japanize" one's viewpoint and conduct business in the Japanese way, failure to make this effort will probably mean complete failure. Appreciation of Japanese values and a thorough familiarity with Japanese consumer behaviour are essential. For example, as will be discussed later, Japanese approaches to advertising often appear highly oblique to the Western mind, and, as the interview materials will later show, many expatriate managers indicated this made the choice of creative solutions for positioning and promotion very difficult. Executives are required to stretch their minds to appreciate the relationship that Japanese consumers have with advertising, in other words that it is used as a source of information and entertainment as well as simply influencing brand choice.

The Japanese believe in two types of obligation, *on* and *giri*. *On* is the sense of obligation passively received by a subordinate for favours bestowed by a superior. Shane (1988) argued that one must always try to repay it, but it can never be repaid fully. *Giri* is a contractual obligation; it is limited in time and must be repaid with a mathematical equivalence to the favour received. He noted that the buyer is always superior in Japan because the seller receives an *on* when someone buys a

product. To repay *on*, marketers may make quality improvements to a point beyond rational economic trade-offs between quality and cost. In a rather weak attempt to make the theory fit his observations, some companies, Shane noted, work *giri* into marketing strategies by distributing free samples to create an obligation among consumers to purchase the product later.

2.3.2.2. Unfair Japanese Practice

For years the Western press, supported by politicians, has suggested that Japan engages in a variety of unfair trade practices. The general view cultivated is that there are many inscrutable and invisible barriers that render penetration of the Japanese market not merely difficult, but almost impossible. This issue has been and is at the heart of an ongoing conflict between the US and Japan.

An interesting response has emerged to deal with the problem of non tariff barrier issues. It is known as the Structural Impediments Initiative (SII). In an interview with John B. Taylor, a member of President Bush's Council of Economic Advisors, he spoke about the SII and indicated high expectations for the initiative because it was an alternative to protectionism or managed trade. In so doing the US has made suggestions that would not entail major restructuring of the Japanese economy and has put forth proposals to implement some of Japan's reciprocal suggestions, such as limiting imports by increasing the savings rate in the US. Pending failure, Taylor suggested, draconian fall back positions were prepared at least on the US side and probably Japan's also (Anonymous, 1990b).

The US-Japan Working Group on the SII released its first annual report on May 22, 1991, (Anonymous, 1991c). The report summarizes the actions taken by the Japanese and US governments over the previous year toward fulfilling commitments made in the 1990 Joint Report on the SII talks, which were broadly aimed at reducing the Japanese trade surplus with the US and making its market more easily available to US companies. Japan made concessions in six key areas: pricing

mechanism, distribution system, savings and investment, land policy, exclusionary business practices, and *keiretsu* groupings. For example, Tokyo proposed to introduce a 52 point policy to reduce domestic prices of various products that are high compared to international levels. Yet, the Japanese alleged that these initiatives were not a response to SII but represent the country's own effort to make the Japanese economy compatible with the world economy (Awanohara, 1990). One topic with which SII was concerned was the 24-hour clearance on imports through entry procedures. The Japanese attempted to cope with this issue by implementing measures concerning the expeditious and proper import procedures listed in the final report on the 1990 SII talks. The Sea Cargo Automated Processing System was scheduled for introduction in Tokyo and Yokohama ports during October 1991. A liaison committee was established to continue efforts to reduce the average time required for all import related procedures (Anonymous, 1992a).

Furthermore, Japan agreed to revise its anti-monopoly laws by March 31, 1991, and strengthen enforcement of those laws. The SII report (Anonymous, 1991) reflected US concerns that the Japanese Fair Trade Commission (JFTC) has been inadequately funded and lacks sufficient authority to enforce the anti-monopoly laws (Maretz, 1990). Among the points to be covered by the guidelines drafted by the JFTC, the report recommends eliminating unreasonable interference in the business activities of trading partners, increasing price competition, increasing market openness, and facilitating market entry for foreign and domestic firms.

As the SII talks were being held, enforcement of the Anti-Monopoly Act of 1947 (AMA) was improved. This act is at the core of Japan's antitrust regime. Compared to competition laws in other advanced industrialized countries, the AMA has been neither intrusive nor strictly enforced (Rowley et al., 1991; Yoshida, 1991). However, the recent SII talks with the US have focused attention on the law. The result is an atmosphere favouring more rigorous enforcement by the

Japan Fair Trade Commission (JFTC) and legislative amendments covering a broad range of business practices. The powers exercised by the JFTC are generally classified as administrative, quasi-legislative, or quasi judicial (Rowley et al., 1991). The AMA concerns itself with four principal areas: cartels and restrictive trade association activity, merger control, acts of private monopolization and unfair business practices. It applies to both domestic and foreign companies as well as to domestic and foreign activities

On May 8, 1991, the Japanese Diet passed two bills submitted by MITI accompanying further deregulation related to the Large Scale Retail Store Law (LSRS). This new legislation represented the second step in the Japanese government's efforts to adhere to the commitments it made in the US-Japan Structural Impediments Initiative (SII); to reform the Japanese distribution system, and to liberalize implementation of the LSRS law, one viewed as a major structural impediment to the import of foreign goods. In January 1989, Japan's cabinet approved changes that would partially deregulate distribution and speed up the approval process for new, large stores. The Japanese side also committed itself in the SII accords to adopt extraordinary measures to accommodate large-scale retail stores specializing in imported goods. It was hoped that the special law on import boutiques would satisfy that commitment (Bates, 1991). However, the final report was not as harsh as some expected, and many on the Japanese side were reportedly relieved. According to Fields (1990), Japanese store chains responded by scrutinizing the directive for opportunities, while representatives of small stores organized to slow down if not prevent the relaxation of new initiatives.

The Japanese criticize managers of US businesses for being obsessed with short term gain. As will be shown later, there is a great deal of truth behind these assertions. Yet, the approach being adopted by the Bush administration is decidedly long term; it is pushing a variety of gradual, decade-scale approaches to opening the Japanese market and resolving trade disputes with Tokyo. Observers have

commented that Japan's economy is gaining strength at such a rate that the US response has probably arrived too late. It has been argued that instead of attempting to change the nature of an ancient civilization the US would be wiser to concentrate on revitalizing its own (Fallows, 1990).

The remainder of this section attempts to question the truth as to whether the widely held views of Japanese obstructiveness are valid, to discover whether in the views of companies operating in Japan, such barriers indeed exist, and to uncover the extent to which MNCs are encountering problems.

There is little doubt that in the past there were real obstacles to foreign competition in the Japanese market. According to the Chairman of BMW (Japan), as recently as the early 1980s, for instance, many parking lots prohibited the entry of foreign cars; however, we will see later that this kind of obstructionism is now more the exception than the rule (Tajima, 1990).

An unpublished January 1989 survey⁴ cited only a few specific cases of discrimination (such as the Large Scale Retail Law). Almost all complaints concerned the competitive business behaviour of commercial firms: for example, car dealers were prohibited from acting as dual dealers because of pressure from their main suppliers (ACCJ, 1989) — an unsurprising situation, since any strong principal can be expected to resist the dilution of its effort. Most structural barriers identified apply equally to Japanese businesses; in other words, although foreign MNCs obviously face obstacles these are probably more cultural and commercial than political.

One of the last legislative barriers to foreign MNCs, the Large Scale Retail Law, underwent changes in May 1991 that promise to have far-reaching effects on the distribution system and opportunities for foreign MNCs. The most significant step is the scrapping of the previous requirement that retail outlets with more than

⁴ Based on the views of members of the American Chamber of Commerce in Japan (ACCJ)

500 square metres of floor space cannot open without approval from other local retailers. This clause protected small shopkeepers, who constitute a massive Japanese lobby group, by giving them a chance to stop the development of large-scale local competition. Since small stores are not equipped to handle large quantities of imported goods, and foreign firms have expertise in large-scale retailing, the policy also discriminated against foreign companies. The revised approval process has also been shortened from 18 months to one year.

Vertical integration of major manufacturers into the downstream distribution system is another characteristic of Japanese business that limits new entrants' ability to build an effective distribution network for their own products. Dual distributors are virtually unknown in the automobile industry. Manufacturers' secure exclusive control, by offering financing to distributors and extend their influence directly to distributors at downstream levels, who then rely on these long credit lines for funding. Since under this arrangement, services and products are often not paid for until four to five months after receipt, working capital requirements are extremely burdensome for foreign companies trying to compete (Kanabayashi, 1978).

Even if distributors consider adopting a foreign product line, it is not unknown for them to receive warnings from other principals threatening to withdraw key lines, or that immediate payment for goods is required. The ACCJ report acknowledged that such practices are well known but infrequently documented, and it cited the threat by Japan's largest agricultural co-operative to withhold subsidy payments if farmers purchased foreign feed or fertilizer. The report also claimed that product testing by testing organizations staffed by ex-government officials is likely to result in faster approval by the ministries. This practice of hiring ex-government officials (*amakudari*), which is widespread in Japan, remains a strategy that foreign companies cannot readily apply. They must forge their own connections as best they can (ACCJ, 1989).

One area where some charges can be made about Japan is that of patenting. The

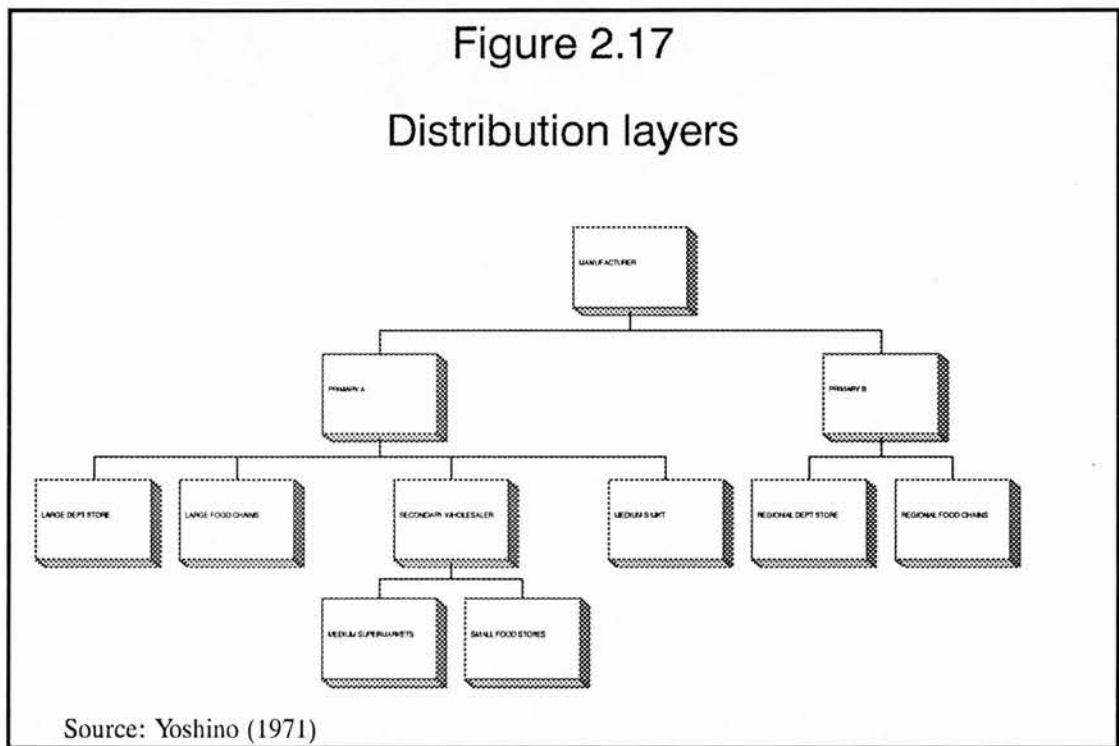
Japanese system limits the issuance of patents to foreigners (Morgan and Morgan, 1991). It was not until 1991 that the invention of the integrated circuit was registered when the Japanese government relented and accepted a request made back in 1960 by Texas Instruments. Although the reverse is true with patent flows from Japan to the USA it is more a measure of Japanese creativity than Japanese obstructiveness. In 1988 Japanese corporations and individuals received over 21% of the patents issued in the USA. Of the top five companies filing for American patents, a good barometer of creative renewal, only one was American.

2.3.2.3. Distribution

Many overseas companies are unable to penetrate the Japanese market simply because they failed to utilize the Japanese distribution system at all — or at least properly. Japan's distribution infrastructure can be described as a "traditional system," although this is somewhat of an oversimplification, since it does possess particular features that are built on a long tradition of trade practice peculiar to Japan. According to an authoritative work published by Business Intercommunications (1985), many of the crucial elements that determine the nature of distribution in Japan are inherited directly from the Tokugawa period, the last of the pre-modern eras, in which the merchant class developed practices that were often based on such restrictive measures as price fixing. The resultant marketing system established large wholesalers in key positions, specializing in exclusive products. The contemporary extension of this system may seem to have simple characteristics, but it is a logistical and financial nightmare: the task of ensuring its products are within reach of consumers requires extensive planning, negotiation and relationship development.

The chart below is a representative example of the distribution system of a Japanese food manufacturer. Japanese distribution usually has several layers involving primary and secondary wholesalers. The primary wholesalers are

classified into A and B categories: in the chart, the primary A wholesaler may be instrumental in introducing primary wholesaler B into the network to round out geographical or other functional coverage; the primary A wholesaler would invoice on behalf of the manufacturer, despite the primary B wholesaler receiving deliveries direct from the manufacturer.



Each of the several distribution layers has its own specialized functions such as merchandising, product specialization, and geographical focus. The number of layers involved varies from sector to sector and, within sector, from product to product. Within product groups, the layering varies among manufacturers. The above source on the subject charts 150 different patterns of distribution for common products. Frequently, the Japanese distributive trade competes on service; indeed, the services offered to retailers by the wholesaler, and by wholesalers to manufacturers, include training in merchandising, tuition in retail skills, store layout and pricing. The provision of such services helps account for the large gap

between what the consumer pays and the manufacturer's selling price.

The structure of the Japanese distribution network is determined by that purchasers in the major conurbations live in densely populated areas and in proximity to their neighbours; their living and storage space are limited. This in turn means that the Japanese shop frequently, often favouring small local stores. Liquor is delivered directly to the home, vending machines are within a short walk of almost everyone, and since consumers have grown accustomed to convenient local shopping, the distribution system that has evolved supports small retailers with frequent deliveries.

In the US or Europe, distribution is regarded as a technical function — the sort of activity that may be processed by a food broker or jobber. In Japan, however, the role is comprehensive and involves much more than simply delivering a product. Distributors provide most of the weekly and daily deliveries, carry out the order processing, and frequently conduct the selling as well as the merchandising. The partnership between a principal and the distributor or broker is very close in Japan, and the newcomer must try to find precisely the right distributor with whom to build such a relationship.

Japan has around one million retail shops that sell food or associated products. In the food sector in the US or Europe, the distribution channels often go directly from manufacturer to the retailer. Accustomed to this arrangement, some foreign companies have therefore attempted to circumvent Japan's more lengthy distribution channels, often with disastrous results. Moreover, many Japanese consumer goods' companies have direct investments in the wholesale trade; and consequently, the dividing line between a manufacturer's regional warehouse and sales office, and that of an independent wholesaler, can be blurred. In any event, the Japanese wholesaler has a much greater influence on retail trade sales than his Western counterparts in most other markets.

The retail and wholesale industries account for nearly 15% of Japan's domestic

production; its structure is characterized by the high density of stores compared to other countries (Shiotani, 1988). Rising imports of manufactured goods are making inroads into the Japanese market and changing the complex distribution system. If this continues, it may result in a restructuring of Japan's export oriented economy. Factors responsible for increased imports include the appreciation of the yen, diversifying consumer tastes, and encouragement from the government to import to reduce its trade surplus (Anonymous, 1989c). Four government agencies were involved in making recommendations aimed at applying existing laws in a mode that favours the consumer rather than manufacturers or distributors.

In 1989 Japanese retail prices were 48% higher on average than those in the US and 55% than UK prices, a situation attributed to the distribution system. The perceived problem with the Japanese distribution system stems from the proliferation of retailers. For example, a poll taken by the Asahi newspaper group of 100 major Japanese corporations found that the major causes between overseas and domestic prices were the distribution system and government regulations. Trade is not carried out on rational (Western) economic principles. According to Sumiya of Chiba University of Commerce, wholesalers concentrate on annual rather than specific sales and charge retail stores equally whether they receive high or low frequency servicing (OECD, 1990).

Yet, this is only a partial explanation. For example, Hiroaki (1988) performed surveys of Japanese and British manufacturers to compare production and distribution practices in the two countries. The objectives were to determine whether: 1. The total of the retailers' gross margin, the wholesalers gross margin, and the wholesalers' distribution cost was the same between countries, 2. Recent changes in production and distribution practice fell into the same pattern, and 3. The cost of distribution influenced the retail selling price. Although both countries experienced changes in the consumer good's industry that resulted in smaller orders, many of the Japanese manufacturers reduced their production runs while many of

the British had increased theirs. British manufacturers rely on supermarkets to a very large extent that acted as a spur to large batch production. Conversely, Hiroaki mentioned that Japanese retailers demand much smaller deliveries thereby inflating distribution costs. In this regard these two markets are driven by separate sets of forces.

Proposals to reform Japanese distribution were prompted during the economic summit meeting in Toronto in June 1988 when Noboru Takeshita, then Prime Minister volunteered to help foreign firms get more of their goods on Japanese shelves (Economist, 1989). Measures proposed to make shopping in Japan easier and cheaper consisted of: sole agents' arrangements, secret rebates, manufacturer price maintenance, sales promotion restrictions, as well as the Large Scale Retail Store Law referred to previously. Fields (1988) attributes the existence of such a law to the Japanese emphasis on *wa* or internal harmony, which was established to protect small stores from the encroachment of larger operations.

In Japan, large and small companies are treated equally, so it is more difficult for smaller companies to succeed. Even if completely free market principles were allowed in Japan, a Western style distribution structure would not emerge. Likewise, Fields (1989) argued that removing the restriction in the Large Retail Store Act would probably not result in dramatic reductions in distribution costs. The most profound organic change, he argued, would be to place the power into the consumers' hands. Fields asserts that the most serious deterrent to changing the Japanese distribution system is the lack of consumer representation and the lack of realization by the consumer that this is what keeps distribution costs high. His argument is perhaps somewhat dramatized, but his point is valid that standards of product availability and high service levels are background factors to most Japanese consumers, however after greater exposure to other countries their ability to contrast the differences come will be enhanced.

Buckley et al (1990) outlined two component decisions to be taken by the firm

in determining its distribution channel policy. They were:

- The need for and location of wholesalers
- Internalization versus externalization of wholesaler functions.

In the Japanese context we must also stress:

- Relationship building
- The role of the *Sogo Shosha*
- The wholesaler's pivotal role
- The Proliferation of retailers.

2.3.2.3.1. The need for, and location of wholesalers:

The need to provide local market inventories and physical distribution is usually assumed to be a result of the manufacturer's remoteness from the target market, both in physical and cultural terms. The usual perspective given in the international business literature suggests that stocks are located close to the origin of demand and the points at which market information can be best accessed (Buckley et al., 1990). The location of wholesaling is usually discussed in connection to costs. Optimum location is based on stock ratios to optimize customer service and the technology of warehouse design. These must be offset against transportation costs as it is the interplay between inventory and distribution costs that leads to optimization of stock holding costs (Buckley and Casson, 1976).

A critical assumption behind the analysis above is that the quality of service to the customer is fixed but there are product and market circumstances where this cannot be justified. For example, remoteness may mean being out of touch with market needs which may motivate the decision to appoint foreign market distributors. They argued that the choice of production location may be influenced by the location of wholesaling and distribution operations⁵. This is especially true

⁵ LEGO attributes a large part of its success to its locating its offices in Japan in Asakusa, Tokyo A centre of the toy industry's wholesalers.

where competitive success relies heavily on rapid delivery to retailers. Moreover, they cautioned that it cannot be assumed that the MNC faces an unrestricted choice of types and locations of distributors because established networks can provide a formidable barrier to entry.

2.3.2.3.2. Internalization versus externalization of wholesaler functions:

Inventory holding decisions must be prefaced by the decision whether they should be held internally within the company or externally with intermediaries. The choice, according to Buckley et al., is determined by: relative costs, importance of market intelligence, the manufacturer's perceived need to control operations, the host market infrastructure and the firm's competence.

The popular view of the Japanese distribution system is that it is labyrinthine, controlled by long-term established relationships, and inordinately difficult to break into — which is partly true. Long-term relationships between the manufacturer and the distributors are a key factor, Japanese distribution arrangements being complex and composed of so many players whose close co-operation must be sought and retained over a long time (Tajima, 1989). However, there is nothing unique about the system as a whole; it is simply what the textbooks call a "traditional system" (Kotler, 1988) and differs from Western models only in degree (Yoshino, 1971). Nevertheless, it would be dangerous to oversimplify the structure, since it does have idiosyncrasies and complexities that will tax the unwary MNC. Marketing channels are generally long; there are many different wholesale levels and players of various sorts; the number of stages that the product passes through leads to a price build-up, which, as was indicated earlier, the consumer ultimately pays for at the retail level. It is true however that between 1983 and 1985, the number of retail establishments decreased by 5.3%, and the wholesale industry continues to shrink.

In Japan, for example, there are a vast number of small retail outlets that must be reached and serviced frequently. Most Japanese companies operate with little

equity capital and much debt, and so manufacturers supply goods to wholesalers for promissory notes ranging up to six months; wholesalers can therefore generate funds by generating stock turnover before making payment. Since wholesalers can survive with relatively little capital, manufacturers spread their risks by dealing with many different wholesale operators. In this way, the distribution system acts as financing system, in other words it ensures a continual supply of credit (Kanabayashi, 1978). With service playing such an important role, Japanese wholesalers are usually willing to take back unsold goods from retailers, and the large number of wholesalers in the system enables the overall marketing risk to be spread. Clearly the characteristics of the Japanese distribution system mediate in favour of foreign MNCs externalizing distribution.

2.3.2.3.3. Relationship building:

Building and maintaining relationships are key functions of the sales force. Existing customers may favour alternative manufacturers' brands if they consider better standards of service or attention is available elsewhere. This issue of balancing resources between the potential and extant customer base is of perennial concern, even to major companies. After the nuclear family, the next most important social unit tends to be the work group, and then the slightly more distant relations, such as uncles and aunts, etc. Personal networking is not usually connected with the family and since the firm fulfils some of the roles that are fulfilled by the family in Western society, primarily at the ideological level, it is perfectly normal, as is argued by Moore (1967), for company relationships to become critical.

2.3.2.3.4. The role of the *Sogo Shosha*:

These organizations have become immensely powerful. For many foreign MNCs seeking distribution, the *sogo shosha*⁶ are the first stopping point, although there have been many instances recorded where these groups have disappointed or, as interview material will later indicate, failed their foreign partners. One of the reasons is that they tend not to handle small volumes, i.e., less than ¥20 million of goods, and therefore often lack the sensitivity to handle smaller brands (Business Inter., 1985).

2.3.2.3.5. The wholesaler's pivotal role:

In the Japanese consumer good's sector, grocery wholesalers tend to carry select lines of merchandise that they offer to all retailers. Conversely, in the US, a wholesaler may often carry a broad range of merchandise to service a selected range of stores with which it is connected. Japanese wholesalers try to avoid competitive lines.

To a much greater extent than in Western countries, major retail chains in Japan use conventional wholesalers instead of creating their own facilities and systems, and many of these arrangements exist on an exclusive or semi-exclusive basis. The wholesalers co-operate very closely with the manufacturers on new product introductions — an important requirement, since the sector receives some 30,000 new products each year compared to some 6,000 in the US. Competition between grocery wholesalers is fierce; the number of wholesalers in this sector is growing at more than 1,000 per annum (German, 1989).

⁶ Despite their size and variety these are, at their cores, simply trading companies. They are channels connecting demand and supply. They are more than mere intermediaries, however, they are also active creators of long-term demand and supply to ensure stability and to generate new business opportunities. They are highly diversified global businesses, each one handling between 10,000 and 20,000 products (Young, 1979:3-5).

It is not only the number of wholesalers that makes their role a key one. In the US and Europe, a major manufacturer may succeed in circumventing the wholesaler, but in Japan the extremely fragmented nature of the trade means there is no way to reach the (million plus) selling points without using the wholesaler. *Giri* plays a big part in the relationships between business contacts: once a manufacturer-wholesaler-retailer tie-up is established, tremendous pressure is exerted on each party to maintain the relationship. "Hit and run" agreements are frowned upon.

Three broad types of wholesaler can be identified in Japan's multi-layered distribution system:

- Primary;
- Secondary; and
- Tertiary (German, 1989).

2.3.2.3.5.1. Primary:

Out of approximately 430,000 registered wholesale businesses, there are several hundred referred to as primary or class A wholesalers. Their role is to buy merchandise from the manufacturer and sell it on to other wholesalers in the chain. Many of these firms are well-established companies with close manufacturer relationships that extend beyond pure business transactions and derive their personal, quasi-feudal nature from links reaching back into Japanese history. Companies such as C. Itoh, Marubeni-Iida, Toyo Menka, Nichimen Jitsugyo and Goshō, all fall into this category (Anonymous, 1989b).

One of the interviewees, George Maruyama of Chuo Bussan KK uses a railway metaphor to illustrate the distribution principle: the A class wholesaler has a distinct function in the Japanese system, rather like a main-line express train; it travels 400 kilometres between stops, but a local train is necessary to carry the traveller/goods to the final destination. That local train is the B class wholesaler. As an extension



to A and B, there are various jobbers and other tertiary wholesalers, each with their own functions.

The primary wholesaler acts as the manufacturer's associate or agent, often invoicing on the manufacturer's behalf. For example, an 'A' class wholesaler may set up a 'B' Class wholesaler to service Hiroshima; a percentage would be agreed for collection of receivables and whatever other function is agreed necessary. The wholesaler often has a substantial sales force, with salesmen dedicated to a particular supplier's products.

2.3.2.3.5.2. Secondary:

Secondary wholesalers buy from the primary wholesalers, and in turn sell to tertiary wholesalers or to retailers. These secondary wholesalers are often much bigger than the primary wholesalers from whom they procure supply and, although they would prefer to buy directly from the manufacturers, the rigidity of the system means they are unable to bypass the primary wholesaler.

2.3.2.3.5.3. Tertiary:

There are no exact figures for the number of tertiary wholesalers in Japan, however, according to Chuo Bussan KK's sources, a total that included both registered and unregistered one-man operations might run to more than 300,000 (Anonymous, 1989b).

2.3.2.3.6. Proliferation of retailers:

According to the Ministry of International Trade and Industry (MITI) figures for 1986, there are approximately 1.6 million retailers in Japan, with over one million in the "mom and pop" category. All of these outlets are serving separate market catchments on a highly local basis. They tend to hold low inventories and require frequent reliable supply services from wholesalers (see Figure 2.16).

Manufacturers in Japan place great emphasis on maintaining good relationships with retail dealers, and make strenuous efforts to reinforce these ties by funding trade promotions and events of various types. Both primary and secondary wholesalers feed a range of differently sized retail clients, from large *depotos* to very small convenience and "mom and pop" outlets. To the outsider, this aspect of the Japanese distribution system may seem inefficient, but it is built into the very fabric of society. While "mom and pop" stores accounted for 80% of all retailers in 1958 they were reduced to 41% by 1988 (Fields, 1991).

The number of retail stores decreased by 5.4% between 1982 and 1985; a loss of approximately 93,000 stores and the number of wholesalers decreased by 3.7%. This decrease in retail stores mostly involved marginal stores with four or fewer employees. Retail stores with about 30 employees or more increased by about 7%. This is partly accounted for by the trend for prosperous retailers to buy out small shops thus creating chains (Anonymous, 1988c). Although old style retail stores are declining, stores with special management forms are experiencing high growth. In particular the sector is also seeing the rising influence of the *koubidi*, 24 hour convenience stores. More stores are dropping out of shopping streets, and new shopping centres are opening in suburban areas (Nakanomoyo, 1990). For historical reasons, the retailer has maintained a very high degree of influence that can be traced back to pre-industrial days when manufacturing was predominantly small-scale. Under these circumstances, manufacturers developed little in the way of direct relationships with consumers; hence, indirect consumer contact with the

consumer by way of a retailer was normal — a pattern that has carried over to the present day (Anonymous, 1989b).

A key difference in the Japanese distribution system is the degree to which wholesalers place retailers in pride of place, irrespective of cost, and the inordinate lengths to which they go to provide service. Retailers demand smaller package units and smaller drop sizes. Wholesalers will frequently ship an uneconomic delivery to retailers on service-based grounds, as opposed to economic criteria. With approximately 200,000 retail outlets handling soap and detergent products, the servicing costs are immense. As Schofield (1987) illustrated, wholesalers are integrating retailers into what they call their value-added networks (VANs). This means that they are bringing retailers on-line and sharing information, so that the channel as a whole can become more responsive to market requirements. They are also offering the retailers tuition in retail skills. As Asano (1990)⁷ indicated, there are various types of VAN, such as the distribution VAN, the regional VAN, and the industrial VAN all of which are based on the electronic ordering system (EOS) .

Major retailers have a great deal of computer expertise on their own account. It provides great benefits with stock control, but large computer systems also limit flexibility, which can create difficulties for the manufacturer trying to win new shelf space. Moreover, partly as a result of computer dependence, many launches of new product in supermarkets are crowded into the March and September seasons and for this reason other important requirements such as finely tuned seasonal preferences are sometimes neglected.

The relaxation of the Large Scale Retail Law will also have some indirect but far-reaching effects on Japan's distribution system. Among the most significant changes are likely to be the break-up of some traditional trading customs and a wider choice for consumer trade-offs between high-price quality service and lower-

⁷ See Box 5.6

price reduced service offers. The gathering wave of large stores buying in bulk from manufacturers will increasingly reach round and over the established bastion of the wholesaler and his fixed function. Moreover, intensified competition will limit small shopkeepers' ability to pass on the costs of the traditional multi-layered system.

2.3.2.4. Market acceptability

There may be some reservations in Japan about the quality of foreign products but there is another side to the coin (that is foreign at least West European, is traditionally associated with something good). There is nothing wrong with foreign per se; the consumer is far more open-minded about foreign products than is commonly believed. Indeed, several interviewees pointed out that Japanese consumers often consider foreign products highly attractive simply because they are foreign. Rather, the issue is MNC's operational abilities to deliver quality goods that meet Japanese expectations.

Non-Japanese cosmetics' companies have benefited from this eclecticism, as have many foreign designer labels. Japan could well be regarded as the major world market for new products, and it is common to hear the word *atarashii* (new) in shopping malls and department stores. Housewives are fond of trying all kinds of innovative products simply because of their newness. New products that remain as growth products are all breakthroughs that have established and maintained their essential qualities, from development to final marketing and consumer satisfaction. A health drink containing vegetable fibre that was marketed with chic style and packaging and aimed at women was also purchased by men, the middle aged and elderly simply because it was based on needs that already existed (Matsuda, 1990).

Foreign goods ipso facto will be considered within a positive category, especially if the items succeed (paradox as this may seem) in tapping some

traditional consciousness; for example Aunt Stella cookies⁸. Events happen extremely quickly in consumer markets especially in Japan. With disposable income at its highest level in Japan's history, tastes are becoming more sophisticated. In the first half of the 1980s, sake sales fell off as people turned to wines and other non traditional beverages. The entire beverage industry is broadening its range of products beyond the traditional male drinkers and is targeting both women and youth (Pepper, 1990). Since my starting to write this thesis, Asahi seemingly secured its future with its new product Super Dry (accounting for 95% of its sales); its further success has been threatened by demand for Japanese beers flattening out. The company is desperately attempting to capitalize on its recent success by launching another new product, a draft brew called Z, in Japan and the US (Miller, 1991).

Providing Japanese consumers with what they want is of course a key part of the selling process, but it is not the only factor involved. Quality plays as influential a role in persuading the consumer to buy or continuing to buy foreign products; and while some foreign brand names as Burberry or Polo may automatically have value in the Japanese consumer's mind, other fundamentals cannot be ignored. Clearly, high-quality foreign goods can attract the Japanese consumer.

⁸ See Box 5.10

2.3.2.5. Modes of market entry

The vast majority of foreign companies in Japan began operations via JVs (Kane, 1981), but many quickly found out that they were difficult to manage as a result more companies are attempting to go it alone. This may be so, but few firms can muster the funds and expertise that are at the disposal of certain international blue chip companies, and if there is any doubt that an MNC has the singular products, knowledge or requisite funds to compete directly in Japan, a JV is still the primary option. Ralph Lauren, for example, teamed up with the sales arm of the Seibu Department Store in 1976. The partnership agreement covered 14 associated *depato*, and in 1988 — in what was considered a logical expansion — a separate Ralph Lauren company was established in Japan to develop independent boutiques, and so further enhance the Polo market presence. In 1990, the Supermarket group Jusco Co. entered an agreement with the Body Shop to set up a franchised chain in Japan. Similarly, in September 1990, the Virgin Group inaugurated its first audio visual operation in Japan. Virgin Megastores Japan Ltd is an equal equity venture between the Virgin Group and Marui Co., a major Japanese department store. Marui is expected to contribute management, marketing and local knowledge and Virgin to contribute dynamism, image and product strategies (Schultz, 1991).

While quality is always a key issue in Japan⁹, once the knowledge that a product is being manufactured domestically becomes widespread, it can work against the producer. This was the case with Burberry. Its strong image in Japan was associated with its *Britishness*, an allure that was considerably lessened when Burberry permitted production under license in Japan (Nakada, 1981). The setback in this case was only temporary — the consumer has adjusted, and comments from the trade suggest that Burberry has subsequently strengthened its presence. Generally, the emphasis on quality combined with advertising a quality image is a

⁹ See Boxes 5.1 and 5.13

successful formula.

Brooks Bros., for example, entered the market through a JV with a Japanese company, and they succeeded because they marketed their status, locating their store in Tokyo's prestigious Aoyama district. Moreover, a, self described, luxurious American store layout was chosen and the prices set considerably higher than in the US. However, this strategy does not necessarily lend itself to the mass market, where the foreign company must compete on equal terms with powerful Japanese companies, and where more orthodox methods must be adopted. For example, Kraft tied up with Morinaga Milk Industry Co. to break into the Japan market, at the time dominated by Snow Brands, which held 70-80% of the cheese market. Relying on its reputation as a processed cheese producer, Kraft attacked Snow in a head-on confrontation, but was forced to retreat (Nakada, 1981).

Another US company, Borden, approached things differently. It entered a JV with Meiji Milk Products Co., but avoided direct competition with Snow Brands. It concentrated instead on sliced and snack cheeses, areas on which Snow had not focused. In this way, it created the impression that sliced cheeses were proprietary to Borden (Nakada, 1981). The success of Borden was regarded, until recently, as one of the most impressive in that industry. However, in March 1991, after an association of some 20 years, Borden decided to break away, publicly declaring that its Japanese partner had set out to systematically destroy the relationship. Borden acrimoniously complained that Meiji was acting too slowly to protect Borden's market interests, especially in the ice cream sector. According to Nakada, it is Borden's intention to take over control of its brands, but Meiji has launched new products such as ice cream to plug the gaps in its own portfolios. In April 1991, Borden filed a motion in the US seeking an injunction to halt the sale in Japan of Aya and Brueges ice cream brands. Borden says these were launched to compete with its own brands well before the license agreement with Meiji expired. The US company says this is an obvious violation of the agreement. The lesson Borden has

drawn from this experience is never to enter a contract that has inherent conflicts of interest. However, damage can only accrue to the company's reputation — as some analysts are suggesting in this case.

2.3.2.6. Long termism

Many companies either fail to win a position in the Japanese market altogether, or they reap disappointing rewards from their efforts. Japan is not a market for the faint-hearted, since the Japanese have achieved economic strength partly as a result of their willingness to suffer losses in the market to build their position (Kotler et al., 1985). Moreover, Japanese corporations appear to be more adept in developing a long-term position; and in so doing they are prepared to absorb short-term losses to a degree that would be unacceptable to many Western companies. To succeed in Japan, foreign MNCs, Jones (1990) maintained, ought to modify headquarters and shift the relevant parts of the head office operation to Japan to force top corporate management to understand Japan from close up. A challenge, he asserted, for foreign MNCs' Japanese subsidiaries and their parent companies is to understand the harnessing of global strength to compete effectively in Japan means changing the organization both inside and outside Japan

2.3.2.7. Staff

When foreign executives are asked to list the three major obstacles they come across in the Japanese market, they frequently respond "people, people, and people." Their concern is recruiting the right number of people, with the appropriate level of experience, capable of operating in Japan with foreign personnel¹⁰.

As would be expected in a booming economy, there is virtually no unemployment — in 1990, it was running at 2.1 % (OECD, 1990); hence, the recruitment of high calibre staff is extremely difficult. A further complication is the hierarchical way in which opportunities are ranked: there is a well-known "pecking order" of preferred employers, which is topped by local companies targeted by university graduates. In this respect, Japan is unlike other countries — especially those of the Pacific Rim — where working for a foreign company represents joining the top echelon. When Japanese students apply for jobs, they do not ask what job they are going to get; they ask what company they are going to work for.

According to Abegglen and Watanabe (1990), the general lack of movement in the Japanese work force can be explained by the Japanese system of incentives:

- Even when lifetime employment does not apply, a wage system based on seniority makes it costly for employees to leave and join another concern especially if they embark on a career track with a major firm or government agency; in which case wages start low and increase gradually with the length of tenure, reaching their peak just before the retirement age of 55 to 60, at which time very large settlements are paid. Although employees in the US can often better their situation by frequently changing jobs, it is quite rare in Japan. Moreover, changing jobs in the West is often viewed as a positive part of career development, a sign of competence and ambition, but employees in Japan who

¹⁰ See Boxes 5.1, and 5.8

leave a good company are immediately suspect — professionally, if not morally.

- Long-term employment also gives employees a strong sense of security.

Many employees hope and expect that they will not be laid off in the normal course of business cycle fluctuations, unless there is a complete catastrophe involving the permanent decline of the firm or industry. This improves morale and encourages workers to make sacrifices — both with wages and extra effort — that they would be unwilling to make in a strictly contractual relationship. Furthermore, identification with the company is aided by employees spending many years with the same colleagues working toward a common purpose. It also has the effect of increasing unity. Long-term employment also enables employees' performances to be judged more accurately, since those who act only to better themselves at the expense of others (or the firm's future) will probably be exposed in the long run.

- Most Japanese firms conduct company-specific training to a greater extent than in other countries. Rather than simply procuring skills (that workers may have acquired in school or from other work experience), firms prefer to hire promising young people and develop their capabilities in-house. Investment in on-the-job training is a less risky proposition in an environment where workers are loath to take their talents elsewhere. Furthermore, many positions involve specific knowledge — such as experience in dealing with particular clients or colleagues, or familiarity with a unique product or facilities — that may not be transferable. This is closely linked to the fact that workers cannot go elsewhere because training is company specific.

- Enterprise unions, another distinctive feature of Japanese industry, are formed within a single company, and cover both production workers and low- to mid-level management. About a third of the total labour force is unionized, and 90% belong to enterprise unions. However, confrontation with management is rare, and, according to a 1981 survey by the Japan Federation of Employers'

Associations, nearly three-quarters of all corporations have directors with experience working as officials in the company's union! Although unions exist, enterprise unions are generally more important, not only in yearly wage bargaining but also in the provision of social and welfare services. For these reasons, enterprise unions play a significant role in limiting labour mobility and encouraging employees to cast their fate with that of their companies. The availability of similar wages throughout the industry for standardized, well-defined tasks also produce little movement, since the majority of employees prefer the kind of colleague unity that develops through belonging to a company union for many years.

Redding and Baldwin (1991) propose the following pointers for staff policy:

- Good executives are hard to recruit but tend to stay, once hired;
- Successful foreign MNCs tend to be those that operate within the patterns imposed by Japanese culture;
- Non-financial rewards, and in particular status, are extremely
- important;
- The labour shortage is becoming more acute;
- Expatriates are very expensive;
- Corporate headquarters is unlikely to understand or be sympathetic to the problems of recruitment;
- Technically qualified professionals are increasingly difficult to locate;
- Japanese culture can be used to good effect in organization, once understanding has been acquired; and
- There are few female executives.

2.3. THE COMPETITIVE ENVIRONMENT

Japanese business, as compared with US and Western European companies, practice retains some singular characteristics. The same is true of Japanese competitor companies. Any company entering a new market, especially one as competitive as Japan, should try to understand how its competitors are likely to behave at the corporate level.

Japanese companies in particular are highly committed to winning corporate wars. A senior Japanese politician and novelist, Shintaro Ishihara, in his controversial book *The Japan that Can Say No*, averred that the Japanese possess a "hunger mentality", a driving force that stems from a sense of crisis dating back to the kamikaze winds that blew away the Mongol invaders 700 years ago (Morita and Ishihara, 1989). In stating that many Japanese believe they have a peculiar sense of destiny, Ishihara may be somewhat over zealous, but whether this belief is justified or merely more *Nihonjinron* output is not clear. However, the Japanese spirit, if that is what it is, leads to some singular business behaviour. This next section aims to provide some insight into the realities behind that behaviour.

There are a number of theories about Japanese companies that attempt to explain why they have been so successful (Japanese corporations account for 17 of the world's 30 largest firms: see Figure 2.18). One interesting idea, from Keegan (1983), worth examining is that the Japanese harness their group culture to:

- Formulate corporate philosophies;
- Manage intelligence gathering;
- Compete aggressively in a focused way.

Although some of the above will be dealt with in the next chapter, a brief discussion follows:

Figure 2.18
The World's Top 30 Firms by Market Capitalization
(Feb. 1990) Rank

Company Name	Country	Market Value (US\$ billions)
1 NTT (1/10th)	Japan	50.52
2 Industrial Bank of Japan	Japan	91.35
3 Sumitomo Bank	Japan	67.15
4 Fuji Bank	Japan	66.12
5 Daiichi Kangyo Bank	Japan	61.38
6 Exxon Corp	US	59.85
7 IBM	US	58.08
8 General Electric USA	US	56.15
9 Mitsubishi Bank	Japan	55.68
10 Sanwa Bank	Japan	54.21
11 Toyota Motor Corp.	Japan	52.00
12 Tokyo Electric Power	Japan	51.83
13 Nomura Securities	Japan	43.92
14 American Tel & Tel	US	41.95
15 Royal Dutch Petroleum	Neth.	40.49
16 Long Term Credit Bank	Japan	49.57
17 Philip Morris COS	US	35.00
18 Mitsui Bank	Japan	34.07
19 Hitachi Ltd	Japan	33.35
20 Matsushita Elect Ind'l	Japan	32.80
21 Tokai Bank	Japan	32.80

22	Nippon Steel	Japan	32.77
23	British Telecom	UK	30.59
24	British Petroleum	UK	30.55
25	Kansai Electric Power	Japan	29.78
26	Merck & Co	US	28.66
27	Amoco Corp	US	27.66
28	Bristol-Myers Squibb	US	27.09
29	Shell T&T	UK	26.96
30	Du Pont (E.I.) De Nemours	US	26.66

Source: Abegglen and Watanabe (1990).

2.3.1. CORPORATE PHILOSOPHY

The establishment of a corporate philosophy is the starting point for many well-ordered corporations (Keegan, 1983; Kotler, 1988). A clearly defined mission or statement of philosophy is intended to unite the efforts of all those in the business around corporate aims. Such mission statements, Keegan contends, should highlight target customer groups, the technologies to be harnessed and the areas on which the company will focus; they will also incorporate certain aspirations (for example the company wants to achieve a leadership position, or to excel with innovativeness). It was Keegan's view that Japanese companies excel at harnessing the energies of all in the corporate team toward the company mission. If a direction embarked on turns out to be a mistake some time in the future, blame may be attributed to an individual, he or she may even be expected to take action to remedy the situation, but it is the group that bears the wider responsibility — and it is likely that the group will extract lessons about the individual mistake for future group activities. This makes individuals reluctant to express their views in debate before learning the views of the group and its leader. Then they agree.

2.3.2. INTELLIGENCE MANAGEMENT

One of the observed phenomena of the Japanese "miracle" is the ability of Japanese companies to successfully identify major opportunities. On the surface it appears that they have identified these intuitively: Industries such as motor cycles and shipbuilding were thought by Western producers to be in the late phases of their life-cycles until the Japanese entered the arena, regenerated these mature industries, and made them almost proprietary to Japan (Keegan, 1983). Was this all intuitive or good data gathering and intelligence management? He maintained that Japanese corporations spread their tentacles by ensuring that key people travel to trade fairs and visit other companies worldwide; they collect data in the form of photographs, brochures, and so on then feed these back into the organization. These imported ideas are appraised through formalized group processes, and then the company focuses on the development of those that pass the appropriate test.

2.3.3. COMPETITIVE BEHAVIOUR

The Japanese have shown themselves to be formidable competitors in many international arenas, none more so than in the Japanese market. On the domestic front, they exhibit singular qualities that Western companies would be wise to recognize and attempt to emulate. These qualities are conditioned by:

- Ownership structure;
- Organization and staffing;
- *Nemawashi* (literally binding of the roots, or bonding);
- Product development;
- Long-term orientation and financial expectations;
- Quality management.

2.3.4. OWNERSHIP STRUCTURE

At the end of World War II, the Occupation authorities deliberately aimed to break up the powerful *zaibatsu* (the gigantic holding companies that dominated the pre-war economy) to create a broader base for "capitalist democracy" (but failed to do so, so that the US is entirely responsible for its own problems with present day *keiretsu*). By the end of the Occupation in 1952, the steady selling-off of individual stock had enhanced the opportunities for institutions to increase their friendly share holdings. In 1949, financial institutions had held less than 10% of listed companies' shares; by 1956, this ratio had increased to more than 20%; by 1968, to more than 30%; and by 1988, to more than 44% (Abegglen and Watanabe, 1990).

These ownership patterns now represent what is perhaps the most important structural impediment to acquisition in Japan. As of March 1988, 73% of all national stock exchange listed shares were held by institutional shareholders, not by pension funds churning portfolios daily to maximize returns, but by long-term investors concerned with the substance of the firm's activities. Financial companies are most favoured, but even manufacturing concerns are usually 50% institutionally held. Various researchers estimate that the level of portfolio holdings in major corporations ranges from 12% to 30%. For example, in March 1988, 55.7% of NEC Corp.'s shares were in the hands of financial institutions, another 18.2% with other firms, and only 23.5% with individuals and foreigners.

Corporate groupings (*gurupu*) contain highly diversified industrial companies clustered around their own banks. Each large member of a *gurupu* sits at the tip of a vertical *keiretsu*, which in turn may comprise several hundred companies. *Gurupu* like the Sumitomo Group have been a major force in the Japanese economy since well before the war (Abegglen and Watanabe, 1990). There are three types of *keiretsu* (besides the old *zaibatsu*: bank groups, manufacturing groups, Hitachi for example), and now marketing groups such as Tokyu and Seibu.

In total, however, there are six giant *keiretsu*: The Mitsubishi, Mitsui, and

Sumitomo groups are the legacy of pre-war *zaibatsu* that were formally dissolved under the occupation. The Fuyo (Fuji), Dai-Ichi Kangyo Bank, and Sanwa groups have taken their present shape since World War II, and centre around the major banks. Major *keiretsu* usually include a bank, a trust bank, a life insurance company, a non-life insurance company, a trading company, and a series of manufacturing firms. Although limited by anti-monopoly legislation and ceilings on financial institutions, these firms generally have very close interrelationships, including:

- Large, often reciprocal share holdings;
- Interlocking directorates;
- Lending, borrowing, and guarantor relationships;
- Joint strategic planning through regular meetings of high-level officers;
- Intensive trading of products and services; and
- Temporary exchange of employees and information (Abegglen and Watanabe, 1990).

Besides the big six, there are a number of smaller conglomerate groupings, and institutional equity holdings often cross group lines. Vertically structured clusters of firms located at various stages in the production and distribution chains are also important; they offer many of the same functions as other Japanese conglomerates. Japanese automobile manufacturers, for instance, often have close ties to their suppliers, involving significant share holdings. Today, *keiretsu* companies often co-ordinate their investment plans, employment practices and political donations (Economist, 1991).

Nihonjinron type explanations are often offered as to the rationale behind these *keiretsu*. Analogies are drawn to the Samurai spirit as an explanation for their focus on growth, for example Morita and Ishihara (1989), but Kester (1991) argues that the ties in the *keiretsu* are singularly commercial. Membership entitles them to privileged rights such as the provision of credit or to supply other parts of the

keiretsu. Growth, he argues, may be an objective purely to widen and complicate the *keiretsu* to further entrench the positions of existing members because they are the only ones capable of unravelling the complexity.

2.3.5. ORGANIZATION AND STAFFING

According to Clark (1979) Japanese companies are more pyramidal than many Western companies. Progression is dependent upon vertical progression and competition tends to be more muted because experience is given its due, although it is true that fast tracks exist so that graduates from the elite Imperial universities have received accelerated promotion into senior management positions. However, in the main the allocation of rank is a compromise between meritocracy and seniority. Moreover there is no universal acceptance of what comprises merit. He noted that progress through the ranks is to some extent automatic but as people become more senior further promotion is more closely linked to what they have been seen to achieve. Seemingly competition begins at the level between section head and department head. This is motivated by the relatively low retirement age in Japan that is set at among 55-60 for men. Therefore, someone achieving the responsibility of senior management rank or a director's position could then expect to continue on higher income until 65 or more. The word "responsibility" refers to the symbolic assumption of guilt. Such symbolic responsibility is the price of status and senior management automatically "takes responsibility" to lift blame from their subordinates.

Companies take great pains to employ the best talent they can, and recruit with the intention to train employees over a lifetime career. Japanese companies are officially forbidden to visit university campuses before September, but, according to Alletzhauser (1990) many ignore these strictures and fill their vacancies well before then, frequently sending out younger employees to search for the best talent in their alma mater. Students commonly receive mysterious phone calls from company

representatives, inviting them to meet in coffee shops, from which they will be led — taking care they are not being followed — to specially rented halls, along with hundreds of other applicants. He illustrated how Nomura often removes its target employees during the official recruitment period by inviting them to Hawaii. The levels of largesse these companies offer are linked to the prestige of the institutions from which they are recruiting; students from less respected colleges are lucky to get a weekend in some cheap resort within an hour of Tokyo.

Apart from being appreciated with status and therefore highly sought after as employees, Japanese companies are extremely well run, pay good salaries, and provide many advantages such as luxury quarters and resort facilities¹⁴ most workers do not expect to be offered by a foreign company. Lifetime employment is another such benefit, although this may now be more of a goal than a reality: according to Clark (1979), approximately 50% of all Japanese employees in Japan work for an organization that has an actual lifetime employment system. Japan having experienced a constant labour shortage; it seems reasonable to suppose that this level may have increased rather than have decreased. This aspect of long termism is not peculiar to Japan; it is a characteristic of business behaviour in Pacific Rim countries (Redding, 1990).

2.3.6. NEMAWASHI

Like many Japanese maxims, the idea of *nemawashi* is said to have its basis in agriculture and is said to derive from the process of transplanting plants or trees by binding the roots of a plant before moving it. The general application in business is that commitment from the group is more likely if the group itself is tightly bound (Willoughby, 1981). More recently, however, the term has developed a special

¹⁴ The "Japanese employment system" of "permanent" employment with fringe benefits is only available to an elite group of university male graduates.

meaning in the context of organizations, in particular within the setting of the decision making process.

According to Clark (1979) collective decision making is rare in the West and responsibility more clearly assigned to the individual whereas in Japan consensus is the norm. He offers an explanation for the consensus approach to decision making: the majority of Japanese managers are generalists with background education in economics and commercial subjects and compared to the West there are very few financial or operations research specialists whose arbitration might carry weight. Without an overriding view it makes much sense to confer and balance a variety of opinions. Moreover since many functions are carried out by sub contractors many Japanese managers have not the power to order things to be done and must learn to negotiate and persuade. For these reasons, in Japan, a great deal of attention is devoted to *nemawashi*, it is linked with consensus, and, like consensus, there are many ways in which *nemawashi* is built. The most obvious is the way that Japanese workers at all levels are expected to go out one or two evenings each week drinking with their peers. This creates bonding, trust and common understanding. Senior members of the group, however, frequently attempt to manipulate this process by building obligation into it.

Supposing a major decision such as a new venture is under consideration, for example a Japanese trading company considering distributing a new product, typically the Assistant General Manager will assign a task force to evaluate its market potential and foresee the division's capability in marketing the product. Much effort would be spent on consensus building with upper management and related groups to foster a sense of group commitment (Nicholson, 1983). Quite apart from assessing profitability, attempts will be made to assess the impact the project would have on the entire company. Scrutiny would be made to establish whether the project fits within company traditions and philosophies. Intense probing would be made how it would be perceived from outwith the business, in

particular by customers, competitors and the press. Loss of face if there is failure would be calculated and its impact weighed. Known as the *kessai* process, the stages of the decision making process are depicted in Box 2.1 (Branne et al., 1990).

In a Japanese company there exist *ka*'s and *bu*'s. A *ka* is a section and a *bu* a department. The *kacho* is the head of a section and the *bucho* the head of a department. *Kacho*'s are very powerful in the degree to which they can influence decisions. When a new idea for a project is tabled the *kacho* will first write a *ringi* — a memo that could be circulated to as many as 80 people in a large company. The recipients will chop the memo and add various constructive comments to it (Nicholson, 1983). As a device for enlisting involvement, this constitutes a sensible approach, but for those more accustomed to autocracy, it smacks of delay. However, as Clark (1979) noted, the *ringi* is sometimes used not to take decisions but rather to provide a record of decisions that have already been made and to distribute responsibility for it among the management.

Box 2.1 The *kessai* process: Japanese stages of decision making

1. *Sodan* - discussion
2. *Johoshushi* - information gathering
3. *Nemawashi* - informal laying of the groundwork
4. *Tatakidai* - "pounding platform" pre proposal
5. *Yohikaigi* - preparatory meeting
6. *Totaru meritto* - total merit
7. *Setai* - business entertaining
8. *Honkaigi* - main or final meeting
9. *Hanko* - personal signature
10. *Kessai* - decision by top management
11. *Ringi-sho* - final approval without meeting, using circular letter.

Source: Brannen, Liu & Commanday, course materials for "Business Communications and Japanese Decision Making Process" (April 1990).

The *ringi-sho* is a typical business plan that outlines the details and merits of the project, its risks, resource requirements and contract terms. A typical *ringi-sho* would be complete with boxes for managers to apply their *hanko* or chop. Managers not supporting the plan might apply their *hanko* upside down or sideways as a signal that more discussion is required. Meetings are not viewed negatively in Japan. Often such discussions might continue all day with routine tasks postponed until late in the evening (Morgan and Morgan, 1991).

In the company context, individual members often make a major commitment to the betterment of the group, even to the point of self-sacrifice — or at least sacrifice of family life. This occurs to a much greater extent in Japan than Westerners appreciate; the Japanese achieve self-realization through enhancement of group identity, and so when people join a new company they join the informal organization (Inaoka, 1983). They then work hard, not only because of formal requirements but also because of informal relations with their supervisors. This may be partly true about companies in the West, but it is even more true of those in Japan.

Taylor (1983) argued that the importance of shame in Japanese culture is underpinned by the Japanese language having eleven different words to describe shame. The most common word, *hajiru*, he claimed is derived from the word *hazure*, which means detached. In other words, shame often has its basis in being detached from the group. The degree to which this trait is endemic in Japanese society can be illustrated by the prosecution of the president of All Nippon Airways, Tokuji Wakasa, for his company's part in the Lockheed bribery scandal (Sakisaka, 1982). He was found guilty of perjury, but Wakasa's crime was lessened in the judge's eyes by the powerful obligation he had shown towards the group: "...we recognize the main motive as an attempt to protect the honour and trust of All Nippon Airways...such matters must be considered in a manner favourable to the defendant." Scandals in the Western world tend to be followed by

many who are prepared to put their names to books and articles that purport to tell the inside story but such behaviour would be quite shameful to the Japanese. When former Prime Minister Tanaka was investigated regarding the Lockheed bribery scandal his chauffeur committed suicide rather than betray confidences regarding where he had driven his leader (Yamamoto, 1979).

Consensus does not necessarily mean the elimination of individuality. At Sony, for instance, employees are encouraged to bring their ideas out into the open because it is believed that if ideas clash, something better may develop from the conflict (Morita, 1987). In other words, consensus should allow for the expression of individual ideas and creativity in a group context. Nevertheless, MNC expatriate managers often find this process of *nemawashi* frustrating (they are excluded from the decision process) and time-consuming.

2.3.7. PRODUCT DEVELOPMENT

Morita describes the development of the transistor by AT&T's Bell Laboratories. Sony licensed use of the transistor technology from the patent holder, Western Electric, in 1949; the technology was in a raw state and required much further development by Sony before it could be applied. The Bell people advised Sony that the only application would be in hearing aids. Then, Sony did not have any specific application in mind (Morita, 1987). To apply the technology it had to further develop it, and in doing so it travelled down development routes that Bell Laboratories had previously discarded. As a result, it is therefore the Japanese — not the Americans — who dominate the field of microprocessor development; the 1 MB semiconductors at the heart of current computer technology are only made in Japan. The US has the expertise to make them, but at the manufacturing level it does not have the technicians: it lacks both the competent employees and the production management capability (Morita and Ishihara, 1989).

The basis upon which Japanese companies compete has even been described as

"passionate" (Keegan, 1983); logic does not appear to play much of a role in the decisions. Of course if such efforts turn out to be unsuccessful, analysts are just as ready to call the same behaviour "pig-headed". Certainly, there are situations where passion triumphs over logic: Take the case of Toyo Kogyo, one of 23 licensees of Wankel rotary engine technology. All the other licensees found the technical problems so formidable that they gave up, thereby leaving the field clear for Toyo Kogyo to achieve technological leadership (Keegan, 1983). According to Kenichi Yamamoto, the company's rotary project team leader, to develop a new technology like the rotary engine 'you need consistent passion, not just logic' (New York Times, 1982). Toyo expended vast sums on developing the technology, creating a continuous stream of improvements that took the company beyond its original licensing source. The rotary engine thus developed was almost entirely different from the original German design concept; with the exception of the basic rotary feature. However, this type of passion certainly costs money: in Toyo Kogyo's case, the company overran its cash budget and eventually the lead bank called the directors to account and replaced the entire board.

2.3.8. LONG-TERM ORIENTATION AND FINANCIAL EXPECTATIONS

Japanese companies' tend to pursue long-term aims (Doyle, et al., 1988; Keegan, 1983), just as Japanese society as a whole exhibits a long-term orientation. Some kinds of employee in some kinds of company experience the following career pattern: a man who graduates from university at 23 joins a company until the mandatory retirement age of 55; he will receive one month pay for each year of service; he may even be rehired by the company on a retainer basis, but with no benefits beyond this time. However, if he is managing director, he may stay working up to the age of 70 (Nicholson, 1983). Redding, (1990) offers an explanation for certain business behaviours by arguing that social respect of seniors

is a common feature of all Asian societies. However the same principle of social respect could be argued to exist in African societies. What can be observed is that in Japanese business, this sometimes carries over insofar as senior retirees are retained in consulting roles for life.

2.4. MARKET CHARACTERISTICS AND TRENDS

Having highlighted the apparent obstacles to entry of the Japanese market and explored some of the methods that foreign companies have brought to bear, in this section the nature and characteristics of the Japanese market will be outlined and some salient pointers to watch will be identified.

There can be no doubt that Japan is a significant market in terms of size, volume and propensity to consume. Its characteristics and trends are considered under the following headings:

- The Japanese consumer;
- Gift giving;
- Market segmentation;
- Buying concentrations;
- Market opportunities.

2.4.1. THE JAPANESE CONSUMER

The majority of Japanese believe that there are two groups: We Japanese (Ware Ware Nippon-jin) and everyone else. The term *gaijin*, frequently interpreted as foreigner, but perhaps more accurately as outsider, tells us much about Japanese value orientation (Whitehill, 1991:51).

He maintains that the Japanese are an unusually homogeneous ethnic group. Everyone speaks Japanese; everyone looks Japanese; everyone thinks Japanese. A stroll down the Ginza is likely to reveal a different pattern than on London's Regent Street or New York's Park Avenue; in both these places there is a wide variety of

ethnic mixing, but not in Japan. The Japanese derive a feeling of solidarity from this sameness; a sense of security from being an insider. The expression "we Japanese" is heard frequently and not only reflects the insider-outsider syndrome but also implies a uniqueness of which the Japanese are very proud. Group identity, Whitehill (1991:51) noted is a key issue; to be lonely, to be a stranger, to be isolated from one's group — these are constant dreads among Japanese people. As a result groupism, in the sense of total commitment and identification to the group is a treasured cultural value. Yet there are many similarities shared between Japan and her trading partners. According to Whitehill, a prominent Japanese businessman once observed: "The Japanese and American management systems are 95% the same, and differ in almost all important respects."

If they are to make any progress in the Japanese market, foreign marketers must follow the fundamental rule of marketing and learn to understand the consumer by identifying consumer preferences and defining the product accordingly. It is usually insufficient to import concepts originating abroad — no matter how successful they have been elsewhere — without tailoring either the formulation or the communications. This fundamental was endorsed strongly by the executives interviewed.

The key factors to consider in the adaptation process are:

- Structural and cultural influences;
- Advertising
- Consumer needs;
- The role of the female consumer;
- Consumer interest criteria;
- Quality; and
- Consumer wealth and lifestyles.

2.4.1.1. Structural and cultural influences

In Japan's major conurbations and along its seaboard, many Japanese live in proximity to each other, and this tight-spaced habitation leads to some interesting purchasing patterns. For example, with so little living space, there is no room to store dirty clothes; hence, consumers launder small amounts frequently, creating a huge detergent market (Fields, 1983, and a special type of preferred washing machine. Market research originally conducted by Johnson & Johnson (Japan) in the 1960s and verified many times subsequently, showed that babies' diapers are changed by Japanese mothers twice as frequently as they are by their US or European counterparts. One reason is that smell is easily detected in a small living space. Johnson & Johnson initially expected that this would lead to higher talcum powder consumption; but this was not so. More frequent changes leads to fewer rashes, but, what is more important, the preferred method of talcum powder application is with a puff, since it provides a more focused application and causes less mess in the space available.

New products that remain as growth products are all breakthroughs that have established and maintained their essential qualities, from development to final marketing and consumer satisfaction. Marketing research by Hitachi revealed that as the number of working women outnumbered those remaining at home, washing occasions were transferred to night and early morning which revealed an opportunity to introduce quiet washing machines (*Shizuka Gozen*) (Nishikawa, 1989).

Clear benefits result from obtaining a detailed understanding of the consumer. This is especially true when structural data is combined with knowledge of Japanese traits. For example, given that the average consumer has little storage space available for supplies and other commodities, provisions are never too far from view. Since that consumer is known to be concerned with quality and aesthetics, interviewees indicated that very few dented cans are sold in Japan. Furthermore,

packaging standards are of a very high order, and with *origami* (paper cutting art) and *ikebana* (flower arranging) among the unique arts of Japan, little wonder that the average packaging in Japanese *depato* exceeds that seen anywhere else in the world.

Bathing in Japan is as much a therapeutic as a hygienic process. The Japanese wash and swill off before climbing into the bath tub; the clean water is shared between several family members. Nevertheless, this custom does not prevent Western features being included in the bathrooms. A majority of Japanese bathrooms include a shower (Fields, 1983). However, in Japan, the shower is used differently: many shower before soaking, while others shower after soaking to wash their hair.

2.4.1.2. Advertising

Rix (1992) noted that there is no strong Western research based understanding of Japanese advertising and argued there is a requirement to explain better to Western observers of Japan the role of advertising, its role in the media and its place in shaping contemporary Japanese culture.

Overall monthly circulation of all magazines is approximately 240 million; and according to ABC (Audited Bureau of Circulation), data is available for 74 major magazines. There are undoubtedly many more, and for every possible hobby and taste (there is even a rock music magazine targeted at bass guitarists). Moeran (1991) indicated that there are 2,200 magazines on the market. These can be divided into various categories: according to frequency of publication, target audience (men, women, age groups), subject matter (general, entertainment, hobbies, comics, sports, and so on). Some magazines, like the specialist journals sell only a few thousand copies; others sell well over a million. Almost all magazines are bought at retail outlets (station bookstalls, convenience stores, book shops); since very few magazines operate on a subscription basis. Advertising

agencies pay the magazine publishers cash within one month of advertisements appearing in the magazines. According to Moeran, advertisements that are placed direct from "sponsors" would be paid by post dated cheque, perhaps delaying payment by as much as six months. It is very difficult to buy space in well-established magazines, unless for one reason or another a space falls vacant. Even so, publishers still set a condition that the substitute advertiser should have acceptable status and ranking. Publishers keep their readerships in mind and strive to have advertisers that meet their readers' expectations.

The publication of a new magazine is extremely important, he claims, because it affords an opportunity to buy space on a regular basis. Prime spaces are put out to tender in the Autumn of each year, and each agency makes its submission with client's name and type of campaign it intends to run. The publishers then decide which tenders to accept, on the basis of preferences which include type of commodity and the status of the company. Here the corporate ranking found in Japan's "the status gradation of industry" (Clark, 1979) is essential, with the result that if Shiseido or Kanebo wished to advertise, they would be preferred to Revlon or Clinique.

Radio is more limited, there being few FM stations and therefore few high-quality audio opportunities to communicate with the consumer in Japan. However, the same is not true of commercial television. There are more than 33 million television sets in Japan, one for every 2.12 persons, and of these sets more than 700,000 are able to receive satellite broadcasting. Furthermore, some six million people subscribe to cable services. Tokyo is served by five TV stations, each of which is potentially able to reach over 12 million households.

There are at present around 105 TV stations in Japan. Two of them are run by the National Broadcasting Corporation (NHK), while the rest are commercial stations, many of which belong to one of five networks. All five network stations can be seen in the major cities of the Hokkaido (Sapporo), Kanto (Tokyo), chubu

(Nagoya), Kansai (Osaka) and Kyushu (Fukuoka) regions. The inhabitants of most other major cities (Sendai, Hiroshima, Okayama, Kumamoto, Niigata, Fukushima, and so on) have access to four channels. The two national television channels broadcast by NHK are available all over the country. Each of the networks tends to be closely associated with a major newspaper group and this has resulted in given each of them a distinct characteristic.

The type of advertising time available for buying are structured differently from, for example, the UK and it bears a greater similarity to that of the US (upon which it is based). The major difference is that there are two types of available purchase: programme or time, and spot advertising. In the former case the advertiser buys time on the entire network, while with the latter he buys it in a particular broadcasting area. Broadly speaking advertisers tend to use time advertising to improve their corporate images and spot advertising to inform consumers about their products. Many programmes have advertisers' names in their titles (Mitsui Housewives' Theatre or Kao Love Theatre). Often a programme may become more renowned for the Nestle or Suntory commercials that appear as opposed to what Moeran (1991) describes as rather dull programme content.

A "one hour" programme is divided into 54 minutes of specified programme, in which there are six minutes of commercials, followed by one minute of spot commercials and what is known as a five minute mini-programme, focusing on news or the weather, of which one minute is again for spot commercials. A "30 minute" programme, for its part, is calculated as being of 29 minutes' duration, during which three minutes are allowed for sponsored commercials. The one minute remaining is then devoted to spot commercials between programmes. Time commercials of 90 seconds' duration all told will be shown at the beginning and end of a 30 minute programme; alternatively three sets of 60 second breaks for commercials may be broadcast at the beginning, middle and end of the programme. The distribution of commercials depends to some degree on the content of the

programme sponsored: a discussion programme will continue uninterrupted and thus has only two commercial times; a *manga* cartoon is more likely to have three commercial breaks.

Advertising research experience indicates, not surprisingly, that Western and Japanese advertising take different routes to the same ultimate goal — sales. Western advertising, often using US-style, hard-sell approaches, stresses what is being said; Japanese advertising focuses on the way that it is said, and frequently takes recourse to mood advertising.

The only detailed analysis according to Rix (1992), of the language of Japanese advertising is that of Moeran (1989) which showed that Japanese advertising differed from that of the British approach by "an emphasis on alliteration, assonance and structural completeness in English, as against a preference for association, suggestion and structural incompleteness in Japanese advertising." "The language of English advertisements would appear to prefer to play on grammatical structures....Japanese slogans are more likely to focus on lexical items, which then become keywords in the advertising discourse." This, Moeran argued, is because the Japanese language stresses an aesthetic of suggestion on which words of association express an undercurrent of meaning. He noted that every nation has its myths and the major myth of the Japanese is their language and further argued that popular forms of the language are used to support the myth of Japaneseness.

Japanese advertisements, Tanaka (1990) argued, tend to produce stereotypical images and in doing so contradict the overt words used in the headlines. Qualities such as intelligence and individualism are used but reduced to mere attributes of fashion, and feminism is used employed to endorse attitudes that feminists would consider chauvinistic. In a recent study that examined the level of Westernization in Japanese advertising and whether this level has increased or decreased over the past decade, Mueller (1992) content-analyzed a sample of Japanese print advertisements from 1978 and 1988. Her results revealed that well over 75 per cent

of the sample incorporated at least one non translated English-language word. English, Kanji and Katakana words were more prevalent. However, considering that 98% of the population speak only Japanese, appearing to miss the point of why English is used she questioned its utility. With the attention given to Western celebrities in Japanese advertising, Mueller noted that less than one ad in 100 used a Western star.

The use of Western models was somewhat more common, with slightly more than one ad in 10 containing a Caucasian model. The results suggested that Japanese advertising is still far from being Westernized. The use of *gaijin* in advertising has never been controversial among the Japanese. It represents quite a change that one citizen's group has taken up the matter of *gaijin* in advertising. The Forum for Citizen's Television (FCT), with a membership of 150 people, analyzed the contents of Japanese television commercials in which *gaijin* appear. The group analyzed the contents of all commercials aired in the Tokyo area during the week of June 11, from 7:00 a.m. to noon and then from 7:00 p.m. to 9:00 p.m. Those with foreigners or with foreign background accounted for 29% of commercials aired. Some 84% of the *gaijin* appearing were Caucasian, and 71% of the foreign places featured were either North America or Europe (Fields, 1991b).

Most commercials in Japan are 15 seconds, and simply attempt to imprint the product name on the viewer's mind (Kishii, 1988). In another recent study (Ramaprasad and Hazagawa, 1992) that also uses the content analysis method, American and Japanese commercials were compared regarding the use and format of creative strategies. The results, based on 311 American and 373 Japanese commercials, revealed some similarities and differences in US and Japanese commercials. Unsurprisingly they found that the countries differed in the products they advertise on prime-time television and in the commercial lengths favoured. The authors argued, by succumbing to the *nihonjinron* perspective, that Japan's greater use of 15-second commercials could be "yet another example of the

Japanese emphasis on the compact yet efficient product". The frequencies of use of the three strategies of brand image, user image, and use occasions of the two countries' advertising approaches were similar. Their findings appear to de-emphasize previous findings that point to the comparatively emotional nature of Japanese advertising and its use of the soft sell. The largest differences in the two countries' advertising existed in the use and format of informational strategies.

While graphic advertising in Japan is less arresting than television advertising, it is the focus of much creativity in Japanese advertising. For example, apparently many advertisements were first conceived in graphic form and subsequently adapted to electronic media. Japanese TV advertisements are often akin to moving posters. Advertisements that use concepts such as the significance of the company and its products rather than creative themes once were the strength of graphic advertising producers. Advertisements have shifted from "concept work" to "creative work" as campaign-type advertising has become smaller in scale. Playful, expressive, entertaining graphics that appeal to favourable feelings are being selected over ponderous, conventional graphics (Anonymous, 1988e).

One article suggested radio commercials sought to perfect the conventional advertising presentation technique and use logical humour, whereas television commercials are a mirror of the trends of the times. Based on 1986 observations it asserted that they "reflected the beauty of dreams, gorgeous and grand in scale." The success of commercial director Jun Ichikawa lay in his portrayal of real characters full of warmth and empathy for man. This effect goes far beyond the "slice of life" approach and is referred to as "heart to heart" communications.

Comparative advertising, although controversial, is being used more frequently (Anonymous, 1988a). However, most commercials that are successful and effective inside Japan are difficult for foreigners to appreciate. For example, a commercial that helped boost Nikka Whisky's sales by 20% used indirect means to highlight the product. American soprano Katherine Battle sang a simple sentence, "I know good

whisky," and the brand name Nikka, followed. The Japanese tend to appeal to the emotions or state of mind of the viewer with little explanatory content. Celebrities who appear in commercials are seen as close acquaintances and confer status on products. Emphasis on the size and reputation of a company are more important than product quality.

One of the interviewed companies, Asatsu, indicated an approximate communications budget for a national launch of US\$10million-US\$13 million. Figures 2.19 and 2.20 show relative advertising expenditures in the Japanese market.

Figure 2.19

Advertising expenditures by media 1989 (billions of Yen)

Rank	Media	Expenditure
1	Television	1462.5
2	Newspapers	1272.5
3	Exhibitions	487.3
4	Outdoor	361.7
5	Magazines	335.4
6	Flyers	299.0
7	Transit	221.0
8	Radio	208.4
9	Direct Mail	182.8
10	POP	142.2
11	Telephone directs	99.0
12	New media	9.5
Total		5081.3

Source: Dentsu (Anonymous, 1990a)

Figure 2.20

Advertising expenditure by industry 1989 (in billions of yen)

Rank	Industry	Total
1	Foods/Beverage/Tobacco	548.78
2	Service/Leisure	399.85
3	Education/others	326.32
4	Cosmetics/toiletries	224.54
5	Distributors/retail	203.75
6	Real estate	201.28
7	Publications	199.79
8	Automobiles	196.41
9	Pharmaceuticals	176.4
10	Banking/insurance	173.92
Total		3279.00

Source: Dentsu, Anonymous (1990a)

Of course, any foreign company entering the Japanese market must be able to think and plan around the dynamics of the Japanese consumer. Back-up development plans are essential, as is a preparedness to aim at a moving target in a segmented landscape. Since the Japanese buyer is constantly being bombarded with new opportunities, a low-level effort will not result in a secure, long-term market position. MNCs must think ahead, and be prepared to spend.

In the wake of the recession that hit Japan in the late 1980s, Japanese corporate attitudes toward advertising and sales promotion turned to campaigns and events that produce immediate sales results. Trade shows were one of these vehicles that benefited from this shift (Anonymous, 1988d). The number of sales promotions'

campaigns in 1986 amounted to 1,300, about the same as in 1985. Sales promotional events such as trade shows and exhibitions were limited mainly to private shows organized by single companies (Anonymous, 1988c).

According to Goldstein (1991), companies in Asia are increasingly realizing that attaching their names to sports events is an effective way to generate television and newspaper exposure. Several factors make Asia ripe for the companies that package sports events, sell sponsorship rights and, in some cases, manage the players involved. The primary reason is those consumer markets for all kinds of goods are growing faster in Asia than elsewhere and local companies are recognizing the potentials for using sports to help sell their products within the region. Moreover, non-Asian companies wanting to enter the Asian market see the same benefits to be gained from sponsoring sporting events. Asian companies, principally the Japanese, are using the same tactics to establish themselves in Western markets. Leading the Western influx is the International Management Group, which has faced difficulties in tapping Japan. Japanese advertising agencies, such as Dentsu and Hakuhodo, secure the locations, find sponsors, and book the television time, leaving little for an outsider to do. Numerous signs, Goldstein noted, point to continued rapid growth for the sports marketing business in the 1990s.

2.4.1.3. Consumer needs

Considering the enormous scale of Japan's rebuilding after the war and that the lives of their parents and grandparents were so dominated by work, it is perhaps understandable that leisure is so important to the *dokushin kizoku* (new singles, or single aristocracy). The name refers to the coveted lifestyle that young adults have in Japan, theirs being the first generation to want as much creative free time as possible — and to have the funds to enjoy it. The value of individual expression in Japan is increasingly important, especially among the young (Kilburn and Wilk,

1988). In some instances remaining single is one of the modes of expression of this individuality. Younger consumers, while they are determined to succeed financially; they nonetheless want more leisure time to enjoy a meaningful life (Vandermerwe, 1990). The singles' market has been estimated at 9.6 million¹⁵ (Anonymous, 1990a). Apparently there was an increase among 25-29 year old singles from 55 to 60.4% among males and from 24 to 30.6% among females. Almost one third of female singles in Tokyo was living alone and a higher proportion of males was also living away from their parents. This trend was more pronounced among university educated people (Kilburn and Wilk, 1988).

MNCs must gain a full grounding in the complexities of Japanese life, ranging from understanding corporate group culture to possible social reasons for choosing certain brands. For example, a consumer may smoke Marlborough throughout the day in order not to alienate his boss (a Marlborough smoker) and to facilitate the sharing practice, but he may smoke an imported brand at home. It was an expectation of some marketers interviewed that as greater tolerance of individualism creeps into Japanese work and social systems, this kind of peer influence may begin to break down; however, group pressure is likely to remain an important element of consumer behaviour, and it is one that marketers should appreciate. Moreover, the product itself must be relevant to the market, positioned appropriately, and sold at the right price; people must learn about it. These are basic concerns that apply as much to Japanese marketing as to anywhere else, but to get them even slightly wrong in Japan is to risk missing out on the buying power of a group of highly discerning consumers.

Japan is constantly changing so it should not be surprising those consumer needs and preferences are equally volatile. To become and remain successful, marketers must ensure a steady stream of new products onto the shelves. Product planning

¹⁵ Source: Minryoku 89, Ashai Shimbun

must reflect Japanese consumers' criteria for selecting goods, and since these criteria are subject to rapid shifts, a continuous market presence is crucial. No market sector is immune to these changes. For example, as mentioned earlier, disposable income is at its highest level in Japan's history and tastes are becoming more sophisticated.

2.4.1.4. The female consumer.

In the Japanese vertical society, a steady progression up the corporate ladder is the expectation, although often unfulfilled. After marriage the Japanese female is dependent for vertical progression upon the success of her husband. Meanwhile, she secures her position by forging horizontal relationships with suppliers, parents of her children's school peers and so on. To facilitate vertical progress she dedicates herself primarily to her children's well being and to some degree to that of her husband's, his health, his dress, etc. Nakane's (1990) model of Japanese society is based upon concentric circles. The centre circle she calls the primary one that is surrounded by the secondary circle which in turn meets with the tertiary circle. There are no others beyond. Japanese housewives have traditionally managed their husbands' money. Nowadays, since more than 50% of these so-called housewives work (earning around US\$1000 per month on average), they often have control of two wallets (Tajima, 1989). This two-in-one consumer presents the international marketer with a considerable challenge. One of the Japanese female consumer's distinguishing characteristics is that she is used to products that have come from a zero-defect production system. She therefore expects excellence with both quality and value.¹⁶

According to Ichihashi (1983), women dominate consumer goods buying to a greater extent than is true in Western cultures, and tend to evaluate their options on

¹⁶ See Boxes 5.15 and 5.17.

emotional bases that must be addressed in advertising and other media communication. Obtaining a qualitative appreciation of the market is therefore crucial; however, he argues that foreign executives should beware of reliance on research that uses English-speaking Japanese females who are among the most Americanized of the population and not representative of the majority attitude.

One subsection of the female consumer group that merits particular attention is that of the young single female. Japan sports a population of over 8.5 million females between the ages of 21-30 (Anonymous, 1989a), many of who remain unmarried until the age of around 25, in Tokyo 20% remain single until 30. Before marriage many often live with their parents and make only token contributions to their accommodation costs. As a result, with average private sector earnings for females running at US\$19,000 (Anonymous, 1990a), they have massive discretionary spending power, and are major customers for the designer goods and foreign travel markets.

2.4.1.5. Consumer interest criteria.

As mentioned briefly in Chapter 1, there is a certain contradictory attraction for the Japanese consumer in things foreign. Despite the intense pride in Japanese quality standards, foreign concepts can be adopted with great enthusiasm — but this requires careful handling. Foreign products often have positive connotations, and at a very simple level, the image of a foreign brand, even its packaging (translating the foreign pack data with sticky labels), can be attractive to the Japanese buyer.

The Japanese have a penchant for foreign travel, and as more go abroad their lifestyles become commensurably different. Approximately ten-million Japanese travel abroad each year and the numbers are growing. Most Japanese travel in groups. The five main groups of holiday travellers are:

- Honeymooners;
- Women in their 20s;

- Men in their 30s to 40s;
- Groups of women in their 40s, or above;
- Sightseeing groups in their 40s (Edward's, 1990).

Women in their 20s are major contributors to the international travel market: Generally unmarried, they represent around 16% of all travellers from Japan. Most have secretarial-type jobs, travel in work related groups, and will go to a wide variety of destinations. Men in their 30s and 40s tend to travel with work colleagues, and it is from this large group that most sex tourism stems: South Korea, the Philippines, Taiwan and Thailand are their main destinations. Young women also engage in "sex tourism" to Guam, where they queue outside American bases, to Bali and elsewhere in Asia where they hire "beach companions." Groups of women in their 40s tend to travel to Hong Kong and other destinations, primarily for shopping and eating out. Those in their 40s or above, many of them married couples, are primarily interested in sightseeing (plus shopping) and go on large group tours — to Europe, China, Indonesia and Thailand.

Japanese travellers are heavy spenders while abroad — an average shopping expenditure of more than US\$400 per person per visit to most major destinations (Edward's, 1990). Much of this expenditure is due to high prices at home, but as a result of the exposure, they become more directly familiar with foreign products, and are more inclined to demonstrate their acquired cosmopolitan attitudes when they return to Japan. Having witnessed the lower prices at which Japanese products are available elsewhere; they demand even higher quality standards at home.

2.4.1.6. Quality

Some Japanese trace their concern for quality far back in their history: they have always been surrounded by aesthetically pleasing objects, and their attention to detail and concern with doing a good job is considered to be part of their cultural tradition. Whether reality or ideology is not clear, but many of the foreign

marketers of today in Japan insist those quality standards in Japan reflect these traditions of precision handiwork. One of the reasons for Japanese success in global markets is that they offer more value by the addition of quality to products that are already competitively priced. This preoccupation with quality also influences Japanese workers, who are used to producing and using goods manufactured to the highest standards.

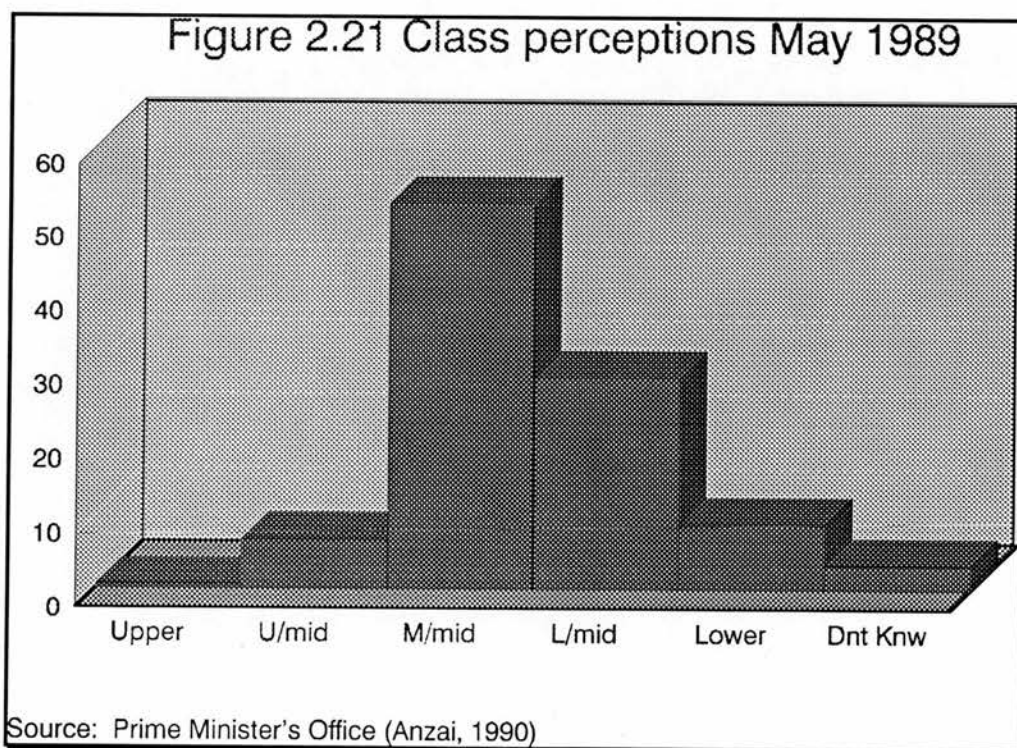
Their concern for quality may, to some, seem excessively fastidious, but to the Japanese there is a clear logic to it. For example, Pilkington's Glass was supplying windscreens to Nissan. They delivered a large batch that had some tiny chips on the outer rim. Pilkington's maintained that they were acceptable because the blemishes could be covered with at least two centimetres of rubber seal on the outside. The windscreens were rejected outright. Why? The Japanese believed that the existence of the flaws indicated that there had been insufficient attention to detail — and so other faults might exist that were not apparent. While quality is clearly one of the critical ingredients for organizational success it is not the only ingredient. Today, marketing is the more decisive weapon for the Japanese (Beckham, 1990). This is a view for which, as we shall see later in Chapter 5, the interview data provided a great deal of support.

2.4.1.7. Consumer wealth and lifestyles

Japan has some of the richest consumers in the world, both with the highest per capita income in the world (at US\$23,000) and the highest disposable income (Cunningham, 1990). Astute marketers recognize that there is nothing made in Japan that the Japanese consumer cannot afford, while every product manufactured by foreign consumer goods' manufacturers is readily affordable to the Japanese consumer. However, this does not mean that every consumer is rich. The increased value of the yen has not benefited consumers proportionately and, as will be seen in Chapter 5, escalating property values has created a special sub-stratum of

wealthy Japanese.

The high cost of living makes Japanese lifestyles much more modest than many Westerners think. Even the wealthy have traditionally lived lives in which thrift and frugality are considered virtues. Since World War II, the Japanese have considered themselves to belong to an enormous and homogeneous middle class (see Figure 2.21), but this is beginning to break down with the emergence of the newly rich; in the main these are composed of those lucky enough to own land. Many of the new rich have a strong inclination to spend their money and to renounce the austere lifestyles of the past. Conversely, those people for whom owning their own home is unrealistic do not even bother to save for eventual home ownership, maintaining that it is better to enjoy life now and spend more.



Eating out is becoming ever more popular. The proportion of the average family's food budget spent on eating out has been steadily increasing since 1980, reaching 14% by 1985. By 1990, 63% of the population over 14 years of age was

eating out at the rate of 16 times a year (Wilk and Kilburn, 1988). This growing market has attracted a number of foreign fast-food operators, such as McDonald's, Kentucky Fried Chicken, plus a variety of lesser-known fast food franchises which have all made an impact. At the other end of the spectrum, La Tour D'Argent and Maxim's have restaurants in Tokyo, with dinner for two in such restaurants easily costing ¥100,000, in between lies a vast and growing culinary market.

Japanese consumers have also grown accustomed to the fact that manufacturers are able to cater for a wide variety of tastes. Among Japanese marketers, the idea of mass marketing is giving way to individualized target marketing: aiming at smaller groups of sophisticated consumers. In a parallel trend, manufacturing systems have evolved that are geared to very short runs, inverting the traditional notion of mass production. Now the prime goal of manufacturing is the production of smaller quantities at ever decreasing costs; many production lines now have built-in flexibility, and even automobiles — usually products of a rigid flow process — are available with a rich variety of features and options. Similarly, the consumer electronics industry is able to offer an astonishing variety of goods: The Sony Walkman, for instance, is available in innumerable variants. Japanese panache for applications development derives both from extraordinarily flexible manufacturing engineering, and from manufacturing's ability to fuse comfortably with development. MNCs would do well to consider that it is the rich, varied output of this fusion that Japanese consumers have grown to expect.

Extravagant modes of buying behaviour have been further encouraged by recent tax revisions. Duties were reduced on a range of luxury items including cars and imported whiskies. An inclination to spend in any way possible, particularly on travel, has led to the development of newer luxury travel concepts such as a 21-hour rail trip on the Twilight Express — a train with scenic windows and a French restaurant that buys fresh fish direct from the ports as it makes its way from Osaka to Sapporo. The train has suite-style bedrooms and fully equipped bathrooms; the

cost of a one-way trip is around ¥55,000 (Kilburn and Wilk, 1989).

With so many rich consumers looking for items that will set them apart from the crowds, a major opportunity exists for marketers in luxury items. According to Infoplan, a market research company, five psychographic categories can be identified in the lifestyle model it has created: Quiets (generally female high-school graduates, now rather tradition-bound housewives or the widows of rich men); Conservatives (older men inclined by tradition not to self-indulge); Classics (male social and political leaders from old families, probably having lived abroad at some time); Moderns (young, independent and exceptionally individualistic); Overts (unashamed nouveau riche). Of these, the Overts are considered particularly appealing to marketers — and for obvious reasons: They are heavily involved in conspicuous consumption; 64% of them are likely to buy foreign products compared with only 24% of the rich category overall; 27% of them own a second home, in contrast to only 15% of the rich overall (Cunningham, 1990).

2.4.2. GIFT GIVING

Gift giving is a popular practice in Japan. There are traditionally two gifting seasons — *ochugen* in mid-summer, and *oseibo* at year end — when companies and individuals give to just about everyone with whom they are connected (Kilburn and Wilk, 1988). Gift giving is a cultural trait (of give and take) connected with social exchange networks. The custom is another example of how the Japanese are adept at importing elements of other cultures and Japanizing them: Christmas trees, Father Christmas and other symbols join forces with *oseibo*, although Christmas presents tend to be more personally oriented. The Christmas business is still considerably smaller than *oseibo* itself; however, major department stores report that it is growing in importance. Other Western gifting festivals have also been imported: The chocolate industry has virtually claimed ownership of St Valentine's Day, while Japan is now the second largest market for diamonds in the world. By

successfully promoting the concept of engagement and wedding rings, and then broadening the idea to include costume jewelry, De Beers has introduced the notion that women should give diamond jewelry to the men they love — and vice versa — as a token of their feelings, especially at Christmas.

2.4.3. MARKET SEGMENTATION

In segmenting markets, as we shall explore further in the next chapter, there is usually a debate over what is cause and effect; although one may identify some consumer characteristic that enables a product opportunity to be distinguished, it frequently requires the provision of a particular type of product to cause a consumer segment to identify itself. Some experts maintain that segmentation of markets should begin with an a priori market analysis; they criticize Japanese companies for being poor marketers, since they frequently begin with product development and not a market focus¹⁷. Nevertheless, the observer can identify many interesting examples of markets that have been successfully segmented¹⁸. For example, observations in a drug store or personal care store will reveal a market that has a vast number of different types of shampoo equal to, or more than, the variety in other Western countries.

More Japanese corporations are trying to appeal to certain niches of the consumer market¹⁹. The Sony Walkman, with its countless variations, has already been mentioned. Another example is magazines. There are probably more of these in Japan than anywhere else in the world. Media audits show readers spend ¥800 billion each month on magazines of various kinds (Anonymous, 1990a). TV starts early in the morning and goes into the night; in some cases all through the night,

¹⁷ See Box 5.12.

¹⁸ See Box 5.13

¹⁹ See Box 5.12.

and the cluster of local as well as national channels, creates a wide variety of media opportunities for the marketer to buy. These choices are the communication routes to particular market segments.

2.4.4. BUYING CONCENTRATIONS

The Japanese market of 124 million people, concentrated in a land area that approximates to California, is clearly much more concentrated than elsewhere, and in this regard offers some advantages. Despite the country's division into many, different sized islands, — the largest of which, Honshu, is bigger than the UK — neither the US nor the EC offers a similar impression of homogeneity, particularly to the marketer.

Japan was once even more concentrated economically than it is today. Since the 1950s, economic expansion has forced large operations to move out of the Tokyo area to as far away as Kyushu and Okinawa. Toyota, for instance, is currently planning to expand outside Toyota City (on the north coast of Honshu) because of space shortage there, and will set up a whole new complex, perhaps in Kyushu. Honda is already established in southern Kyushu. Nearer to Tokyo, the cities of Yokohama, Kawasaki, Nagoya, Kyoto, Osaka and Kobe act like satellite extensions of the capital, each with large and generally well off populations (see Figure 2.22).

Figure 2.22

Population Statistics 1990

Rank	City	(Thousands)
1	Tokyo	12,004
2	Osaka	8,817
3	Kanagawa	7,931
4	Aichi	6,663
5	Saitama	6,273
6	Hokkaido	5,731
7	Hyogo	6,273
8	Chiba	5,530
9	Fukuoka	4,850
10	Shizuoka	3,672
Total		124,225

Source: Japan Marketing Data, Media Information Tokyo 1990.

However, although consumers may be located in massive concentrations, the distribution system does not offer the same levels of focus. In the UK, for example, buying power is often concentrated in the major supermarket chains, which offers some advantages in so far as marketers can easily approach the chains with a new product proposition. If the chains agree, the combined exposure will be sufficient to launch the product; if the chains decline, there is probably a research-based reason underlying the refusal. It is therefore possible to develop an informed dialogue with supermarket retailers to build a productive partnership.

By contrast, in Japan, Daiei — the largest supermarket company — has a

relatively small share (1.5%) of total retail sales (Anonymous, 1990a). It would be possible to win distribution with Daiei but only scratch the surface of the target audience. There are 87,000 drug stores and more than two million retail outlets of various other descriptions in Japan, which would offer greater market penetration but for the fact that gaining distribution through them is rendered more difficult by there being so many buying points.

2.5. SUMMARY AND IMPLICATIONS — OPPORTUNITIES AND OBSTACLES

The Japanese economy has been shown to be an outstanding growth performer. In foreign investment terms Japan has out paced its industrial counterparts (Lacktorin, 1989) and has reaped the rewards with its superior trade performance which in turn has resulted in an overvalued Yen. The consequence of this has been to render imported consumer goods relatively less expensive. However the major opportunities in the Japanese consumer goods' market are for everyday consumables for which Japanese companies compete fiercely and thus require local supply sourcing. Coupled with the MITI initiative that the consumer should enjoy a greater share of Japan's affluence, an opportunity has been presented for foreign consumer goods' companies.

Japanese consumers are wealthy with a propensity to consume on a grand scale, as a result, the Japanese market for consumer products is sufficiently large to deserve consideration by any serious global marketing concern. Urban Japanese tend to live in massive conurbations with small living space. It has been learned that as consumers they are sufficiently distinctive to make it worthwhile researching their basic habits and attitudes. "New singles" and "single females" are particularly interesting target segments. Because of its sophistication, the Japanese market is also highly segmented. Advertising is expensive but there is a wide proliferation of media targeted at a rich variety of interest groups. Buying access to these audiences

is expensive.

High levels of service apply and often these appear to defy economic rationality. One of the major areas of contention, the Large Scale Retail Law, underwent changes during this research. The effect of this is yet to emerge. However, the foregoing does not mean that it is going to be plain sailing for foreign companies with opportunities begging to be exploited, as the sheer tedium of deciphering Japanese practice may be an obstacle in itself. Moreover, yesterday's rules will not necessarily apply tomorrow since Japan is a highly dynamic society and, while reluctant to bow to the pressures of its trading partners, she is simultaneously sensitive to it. When she does decide to change, restructuring can occur quickly as may happen with environmental issues.

There are many very real opportunities worthy of scrutiny by foreign MNCs and the numerous wealthy Japanese have a propensity supported by a proneness to spend on foreign consumer products, it is worth repeating that Japanese consumers are much more discerning than their western counterparts. Given the high costs of investment and the longer term payback periods that apply, the opportunities exist only for those foreign companies capable of dedicating their efforts over long term planning horizons. The Japanese market requires heavy investment backed by corporate management committed to winning a position in Japan.

It was argued that it is necessary to question the fundamentals of consumer behaviour before entering the Japanese market. Basic practices and expectations may possess a quintessential Japanese perspective. Even the most familiar products may require modification both in form and/or positioning. Individual expression is becoming more evident in consumer buying behaviour, but there are limits to this which foreign companies must strive to understand. Females are particularly powerful consumers, as are young singles. Foreign travel is proving to affect the consumers' perception of value as they compare what their Yen buys at home and abroad.

The high population concentrations in turn support a distribution system that relies on many small retailers which offer a high degree of service to the populations they serve.

It has been shown that Japanese competitors are large, powerful and are difficult to predict using Western criteria. The interlocking *keiretsu* system can render interpretation of their actions particularly challenging. Japanese financial expectations from their investment tend to be much lower than comparable foreign MNC investors. Yet they pour funds into product development at a rate that discomforts foreign MNCs (Jones and Ohbora, 1990). Above all they have a long term orientation toward the development of their markets. While this may be inconvenient for foreign companies — in particular American — that are expected to show growing quarterly returns no matter what, being able to adopt and fund a long term orientation is a critical success factor for any company operating in the Japanese market.

The foregoing raises some key issues that will be probed in Chapter 5. They are:

- Why is there is there a massive imbalance in investment by foreign MNCs in the Japanese market? Are there serious difficulties present that justify the neglect of the opportunity?
- What specific aspects of the Japanese consumer market offer opportunities for foreign MNCs and how should they respond?
- Are the formulation and communication of corporate philosophy a prerequisite for success in the Japanese market?
- Is setting up an intelligence network one of the keys to Japanese success?
- Precisely how is the massive consumer opportunity in Japan being addressed by foreign MNCs?
- Is Japanese culture a major obstacle or merely a *nihonjinron* induced filter?
- Is unfair practise endemic in the Japanese market?

- Is distribution as arcane as outsiders believe? What response strategies do foreign MNCs adopt?
- Among the myriad of wholesalers is it possible to forge new networks?
- Are alliances with the *sogo shosha* a suitable distribution approach?
- What are implications for staff recruitment?
- In which ways do the competitive behaviours of Japanese companies require responses from foreign competitor companies, in particular with consensus management and product development?

Having considered some of the characteristics of Japanese consumers and the traits of competitor companies; in the following chapter I shall continue to present a review of the literature to establish an approach for subsequent analysis of the interview data. This takes place in Chapter 5, where the interview data is used to depict the ways which foreign MNCs have responded to the Japanese challenge.

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CHAPTER 3 — THEORETICAL BACKGROUND

3.1. INTRODUCTION

Having reviewed the Japanese opportunities, obstacles and identified some specific topics to probe; in this chapter I will examine the theoretical background to the thesis first by reviewing international marketing theory in a Japanese context; then by taking a lengthy tour through the literature on strategic management and before continuing "downstream" to underpin the international marketing theory by exploring the more operational areas of marketing theory. My purpose is to demonstrate the complexity of the subject; highlight a lack of concurrence where it exists; introduce terms and concepts that will be referred to later; show the context in which marketing strategies are conceived; develop an analytical framework; and pinpoint the danger of seeking a denouement solely from the marketing literature. In this way I hope to be able to discard some methodological approaches and to provide a basis for others.

3.2. INTERNATIONAL MARKETING STRATEGY

At this point we will turn to some of the particular issues of international marketing strategy and in particular that of developing strategy for Japan from the perspective of the General Manager.

According to Brooke and Remmers (1978), complete identification with the foreign market is necessary for the foreign based general manager. They assert that foreign general managers should be able to promote "two way traffic" between their market and the corporate headquarters and in this way contribute to the

development of international strategy. In executing international strategies Hamel and Prahalad (1985) highlight that global competition often starts with a sequence of competitive reaction and reaction. For example a competitor uses cash flow generated in its home market to attack the markets of domestically oriented foreign competitors. Then competitors retaliate in other foreign markets where the aggressor is most vulnerable. However, they emphasize that it is necessary to distinguish among various causes of global marketing: global competition, when companies cross-subsidize national market share battles in pursuit of global brand and distribution positions; global business, in which the minimum volume required for cost efficiency cannot be generated in the enterprise's home market; global companies, which have distribution systems in key foreign markets that enable cross subsidization, international retaliation, and world scale volume.

International strategy ought to be distinguished from global marketing strategy which implies one strategy for the globe. The former relies on a degree of customization to take account of market differences. In addressing the meaning of globalization, Leontiades (1986) suggested that its main feature is that of seeking a combination of co-ordinating mechanisms that will achieve business objectives with a minimum of interference with the freedom of nationally based operating units.

This is a major issue for companies that are developing internationally. If handled carefully the rewards are great, yet if practices and policies are forced on foreign subsidiaries then the results can be negative. Advertising and communications policy is a particular problem area because if these activities remain uncoordinated between markets then a confused image may result. For example, British Airways was accredited with being a pioneer in the development of global advertising. In partnership with its advertising agency, Saatchi and Saatchi, it created a ninety second commercial that the partners believed would restate the

airline's position as the world's favourite airline.¹ Before, major markets were responsible for creating their own advertising campaigns so this was a radical departure from conventional practice as it meant that decisions that were normally taken in the markets were to be taken in London. According to Quelch (1984) this departure from standard practice required a great deal of persuasion and selling to market managers. Not all general managers in the foreign markets accepted the logic and the degree varied to which individual market budgets were dedicated to support the global activity.

Similarly, PepsiCo has been regarded as being a successful exponent of the global marketing approach. During the 1980s it established a communications platform that was based on the statement "The choice of a new generation" and in this way attempted to win over the international youth market. Yet it learned that western youth icons such as Michael Jackson did not "travel" well in all markets. As a result, local versions of the international commercials were shot, thus adding to production costs. For example, BBDO, the Pepsi advertising agency, substituted Michael Jackson with Leslie Cheung in an attempt to win greater appeal across South China.

¹ Influenced by the film director Steven Spielberg, it depicted Manhattan Island being piloted to London by BA aircrew. It used the copyline "Every year we fly more people across the Atlantic than the entire population of Manhattan."

3.2.1. TRADITIONAL MODES OF MARKET ENTRY

Companies marketing goods in the Japanese market are faced with several options (Kotler, 1988):

- Indirect exporting;
- Direct exporting;
- Licensing;
- Direct investment; and
- JVs.

3.2.1.1. Indirect exporting:

In terms of gearing their organizations to deal with the nuances of foreign markets, this involves both the least effort and lowest investment from companies. Often neither an export department nor an overseas sales force is required, and all foreign contacts can be handled via intermediaries. Usually middlemen are involved, the underlying assumption being that they will take the interests of the principal to heart. In many respects, this arrangement minimizes risk: if well chosen, the intermediaries bring to the arrangement an expertise that the exporting company may not possess.

3.2.1.2. Direct exporting:

Under this set-up, companies undertake their own exporting arrangements, and as a result, are required to invest in export overhead. This may involve a home-based export department and/or overseas sales offices; or incorporate a team of overseas sales representatives, and in addition could involve a network of foreign-based distributors and/or agents. Direct involvement and commitment provides a deeper understanding of the markets than is the case with indirect exporting.

3.2.1.3. Licensing:

This is a straightforward way for companies to extend the scope of their expertise, but there may be several other reasons why this option is considered attractive. Basically, the licensor receives a licensing fee from the licensees of his process and/or brands; little effort is required on the licensor's part, and the fees received go directly to the bottom line. On the negative side, the licensor relinquishes control of his brand in the market, and it may well be that by licensing a process for a limited period of time, he is actually helping to lay the foundation for the development of a potential competitor in the future (Kotler, 1991:414; Keegan, 1989:296). If this happens then licensors find that the easy up-front money they obtained from licensing turns out to be very expensive revenue. One way to ensure that this does not happen is to ensure that all licensing agreements provide for a cross technology exchange between licensor and licensee (Keegan, 1989:296). Unless the licensor can continue to innovate, develop the process and persuade his licensees to enter into new agreements, in other words unless control is retained over the brand property, that is exactly what will happen. Sometimes, the danger of unintentionally assisting a competitor can be avoided by the provision of some secret ingredient: Coca Cola took these steps with its base syrup, the formula for which is supposedly known to only a few key people.

3.2.1.4. Direct Investment:

As a mode of entry, direct investment provides two advantages: control and better communications (Keegan, 1989:298). Control, or the lack of it, is an important consideration as was indicated by many of those interviewees with experience of JVs; an issue which will be dealt with in some detail in Chapter 5. Needless to say that if the foreign marketer wishes to make any number of decisions relating to matters such as advertising or pricing, they can be made without

reference to a partner which may be pursuing a different agenda. If new product ventures are involved then the marketer may require major investments in market development activity which may be viewed as investment but without direct control, it may be difficult to win the levels of commitment and patience necessary from a partner (Keegan, 1989:297). In this way plans may be executed swiftly without being encumbered by the need to communicate at length and/or distance with a foreign partner.

3.2.1.5. Joint ventures (JVs):

A joint venture (JV) is a particular mode of foreign direct investment. It is an arrangement where a foreign partner with considerable technological and process expertise but lacking in market knowledge co-operates with a local partner to compensate for its weakness. Given Benson's (1975) argument that managers seek to maintain organizational autonomy while gaining access to resources, joint ventures should be a preferred form of inter-organizational agreement. Managers often show a preference for contracts and mergers as forms of inter-organizational agreement over joint ventures (Berg et al., 1982; Harrigan, 1987; Killing, 1983). According to Berg et al there are three primary reasons for the creation of joint ventures:

- The creation of greater market power by combining resources or generating economies of scale
- The avoidance, reduction, or sharing of information
- The acquisition or sharing of information (Berg et al., 1982).

Other reasons should be added to this list:

- To overcome cultural, political or legal impediments (Kent, 1991)
- To meet host country requirements (Chu, 1987; Franko, 1973; Harrigan, 1987; UNTC, 1987)

- To manage rivalry in an industry by converting potential competitors into allies (Bernstein, 1965; Boyle, 1968; Fusfeld, 1958; Hennart, 1988; Mead, 1973; Pfeffer and Nowak, 1976).

JVs in Japan are usually structured around the foreign company bringing technological expertise or certain brands to the joint agreement, and the Japanese partner offering local market knowledge, connections and the general wherewithal to secure adequate distribution. Although JVs are political necessities in many Asian markets, in Japan this is no longer the case.

The process of internationalization of the firm is a subject on which a great deal of research has been conducted. I will now review this research to glean what relevance it has for the General Manager. The theoretical perspectives are:

- Eclectic theory
- Process model
- Industrial networks.

3.2.2. ECLECTIC THEORY

This theory represented largely by Dunning (1988) is largely concerned with direct investment in production. His paradigm attempts to explain such decisions with three sets of advantages: ownership specific, internalization and locational. Ownership specific advantages stem from structural and market imperfections and relate to technological advantage or multinational power. Internalization relates to the ability to transfer ownership specific advantages across national boundaries within its own organization. He proposed that locational advantages fall into two categories: structural and transactional. For example the former relates to differences in factor costs while the latter refers to leverage.

3.2.3. PROCESS MODEL

This particular approach is based on the *process* of internationalization of the firm (Johanson and Vahlne, 1977; Bilkey, 1978; Wiedersheim-Paul et al., 1976; Cavusgil, 1980; Welch and Luostarinen, 1988). Reid and Rosson (1987) developed one of the most widely adopted concepts in the field which in turn is based on the work of Johanson and Vahlne (1977).

This model has its theoretical base in the behavioural theory of the firm (Penrose, 1959; Cyert and March, 1963; Aharoni, 1966). It is seen as a process by which the firm gradually increases its international involvement. This process evolves as a result of interaction between knowledge acquisition concerning foreign markets and the de facto increased commitment of resources to those foreign markets (Johanson and Vahlne, 1990). That is to say that management feels differently about a foreign opportunity once it has learned about it and is truly committed to it in some way.

In this analysis two kinds of knowledge are recognized: objective knowledge that can be taught and experiential knowledge that can only be acquired by way of direct involvement (Penrose, 1959). Direct involvement leads to the generation of business opportunities and is consequently a driving force in the internationalization process as well as one that aids risk reduction. It tends to be market specific expertise that is acquired and the enterprise can be expected to make incremental commitments as experience is accumulated (Johanson and Vahlne, 1990).

The firm is viewed as a loosely coupled system in which different actors have varying views about regarding its progression (Cyert and March, 1963; Weick, 1969; Pfeffer, 1981). So, it can be expected that those with experience of a foreign market will have views about the relative attractiveness of developing those markets and will promote their causes. Thus this model predicts that the internationalization process will tend to continue with its own momentum once it has started.

Market development, according to Johanson and Wiedersheim-Paul (1975), can be described by way of a chain of events. For example, at the start of an enterprise's involvement no regular export activities are performed, then export takes place through independent representatives, later through a sales subsidiary. These initiatives may be followed by manufacturing. The first stage yields practically no market experience whereas the second provides some sort of market information channel. According to these authors, during this second stage firms tend to enter markets with increasingly greater psychic distances; defined in terms of differences in language, culture, political systems that could potentially disturb the flow of information between the firm and the market. It has, however, been averred that the world has become much more homogeneous and as a consequence psychic distances have been reduced (Nordstrom, 1990).

Buckley et al. (1990) attest that much of the work on international business over concentrates on manufacturing decisions to the neglect of marketing and distribution. If a company is in an expansionist mode, it is necessary to consider the whole channel in making such decisions and once a part of the channel is "externalized" (processed by intermediaries), downstream activities will not be "internalized" (handled direct). They concluded by arguing that the usual classification of foreign market strategies into exporting, licensing and foreign investment is too crude because it ignores the differences between distribution, inventory, transport, communications, retailing and market development costs. Such costs they argue cannot be aggregated.

The process model has grown out of empirical research based on traditional micro economic theory about Swedish firms competing internationally (Carlson, 1966; Carlson, 1975). While the literature abounds with Scandinavian followers, the geographic field covered is more pervasive. For example researchers in Wisconsin have reported results consistent with the model (Bilkey, 1978; Bilkey and

Tesar, 1977; Cavusgil, 1980; Cavusgil, 1984). Others from the USA have reported broadly similar findings (Davidson, 1980; Davidson, 1983; Denis and Depelteau, 1985; Hook and Czinkota, 1988) for exporting firms, and Japanese export strategies (Johansson, 1983), Turkish exporters (Karafakioglu, 1986), Australian exporters (Barret, 1986). Moreover, a study of US entry by acquisitions and joint ventures was supportive of the model (Kogut and Singh, 1986) and in a study of export development of firms from less developed countries that export; entries are first made in culturally close countries and subsequently in the developed countries (Ford, 1987).

The model has been criticized as being too deterministic (Reid, 1983; Turnbull, 1987; Rosson, 1987). Such criticisms are levelled chiefly at the "stages' theory" on the contention that the firm has a strategic choice as to modes of entry and expansion. Such a choice is dependent on market conditions and a transaction cost approach is superior to the process model in explaining diversity in internationalization conduct (Reid, 1983; Turnbull, 1987). Although their logic is plausible these authors could be criticized for advocating the need for "overkill" in any one model.

It has likewise been claimed that the process model is only important in so far as the early stages of internationalization are concerned when lack of market knowledge and resources are still constraining factors (Forsgren, 1989). Once the company is directly involved in a market it is able to allocate resources with greater degrees of confidence. Moreover, environmental changes such as the supply of information and communications have resulted in less fragmented markets that, in turn, impact on the process of internationalization (Nordstrom and Vahlne, 1985). As with all models, care is required not to overgeneralize on their sphere of application. It has been shown for instance that the internationalization process is not valid for service industries. In research on banking it was shown that foreign

enterprises are not governed by cultural distance but market entry was made in small steps (Tschoegl, 1982; Engwall and Wallenstal, 1988).

According to Bartlett and Ghoshal (1987), during the 1970s many firms that had been dependent for their performance in the international marketplace on a single factor such as cost advantage, began losing share to competitors that had managed to acquire both scale economies and individual market responsiveness. In other cases, firms that were dependent on scale or responsiveness became disadvantaged because new technology or changes in government policies shifted competitive advantage from one factor to another such as the effect of the 1992 movement in the EC.

3.2.4. ECLECTIC PARADIGM VERSUS INTERNATIONALIZATION PROCESS MODEL

The eclectic paradigm sets out to reveal "The extent form and pattern of international production" (Dunning, 1972), whereas the internationalization model attempts to explain the pattern and mode of establishing marketing oriented operations (including manufacturing for the local market) (Johanson and Vahlne, 1990). The internationalization model rests on behavioural theories while the theoretical support for the eclectic paradigm assumes that the decision makers have access to perfect information. Even Dunning admits the need for more research on specific firm attributes and their propensity to respond differentially to his three types of advantage (Dunning, 1988). Others argue that the commitment and experience gained are examples of such attributes. The eclectic paradigm is static in nature, while the internationalization model pays attention to changes in the explanatory variables as the process progresses. The two frameworks are inconsistent as the basic assumptions differ.

3.2.5. INDUSTRIAL NETWORKS

Several of the shortcomings of the internationalization model can be highlighted by relating it to the concept of industrial networks. For example, it has been shown that enterprises in industrial networks develop enduring relationships with other complementary institutions (Hakansson, 1982; Turnbull and Valla, 1986). Such relationships develop through interactions in which the collaborators build mutual trust that translates into strong commitment to the relationship (Ford, 1979). These relationships are connected by way of networks comprising a variety of different types of enterprise — customers, suppliers, competitors, distributors, agents and consultants (Johanson and Vahlne, 1990). Such networks are rather elusive phenomena not easily observed or understood by the outsider and particularly so if there is a cultural distance between the players. To enter a network from the outside requires those on the inside to be inclined to allow it to happen and invitations are more likely to be directed to indigenous players in a market. This implies that significant inertia has to be overcome to break into a network which in turn suggests that high "switching costs" are involved (Porter, 1980:114). Breaking into a network is a particularly acute problem in the Japanese context (Goodnow and Kosenko, 1990).

This recognition has led to the term "strategic alliances" a topic that has attracted a fair amount of attention in the literature. Strategic alliance is an umbrella term that describes a menu of relationships that is more subtle than vendor-customer relationships yet less formal than the rights of ownership. These arrangements, developed during the 1980s, take on many shapes: JVs, licensing, R&D consortia, reciprocal marketing deals, and so on. According to some management strategists, alliances take advantage of the natural symbiotic links between companies. The core notion behind strategic links lies in global strategic positioning (Lorinc, 1990). These alliances are a response to emerging market

opportunities; they attempt to integrate various combinations of deliverable resources and capabilities (Baranson, 1990). Successful strategic alliances require a clear understanding of objectives; a well-defined decision making and management framework; effective monitoring capabilities; patience and willingness to adapt to each other's culture; good training of personnel (Anonymous, 1987).

According to Roland Smith, the ex-chairman of British Aerospace, Britain's largest engineering and exporting company, such partnerships are often the quickest and cheapest ways of developing a global strategy. To succeed, he argued, firms require to pick a compatible partner and not rush into a deal. It may be better to choose a partner with complementary products or markets rather than one that competes directly with one's own company, although never easy they have become fundamental to doing business in the 1990s (Weimer et al., 1988; Main, 1990).

3.2.6. TRANSNATIONALISM

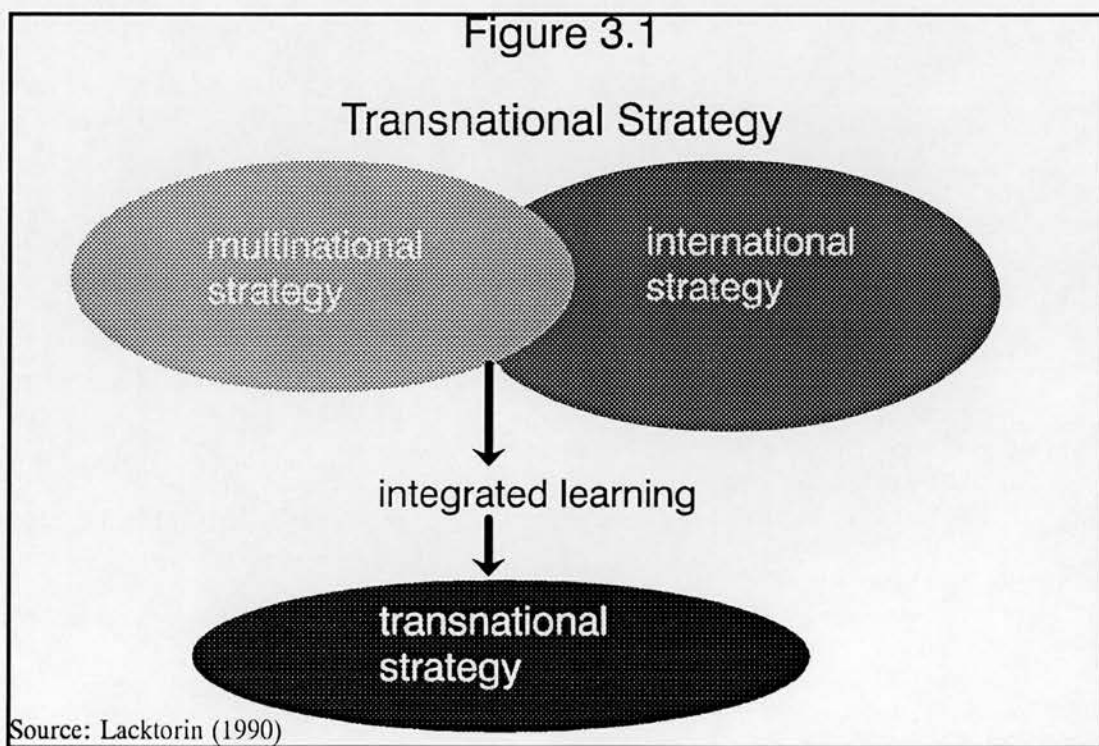
Developing the stream of thought on internationalism, Lacktorin (1990) differentiates among three major international strategies: international (that is exporting from home base), multinational (foreign market concentrated), and transnational. Transnational firms are those that grapple with the conflicting requirements of balancing national responsiveness and economies of scale.

Transnational companies he defined as those firms that:

- Allocate assets and sales across the Triad of USA, EC4 (the old West Germany, UK, Italy, France) and Japan. The allocation should be made in line with each leg of the Triad's share of world GNP
- Simultaneously capture insider responsiveness advantages, without sacrificing economies of scale
- Have multiple national identities, often being perceived as local companies
- Decentralized decision making to such an extent that local management has

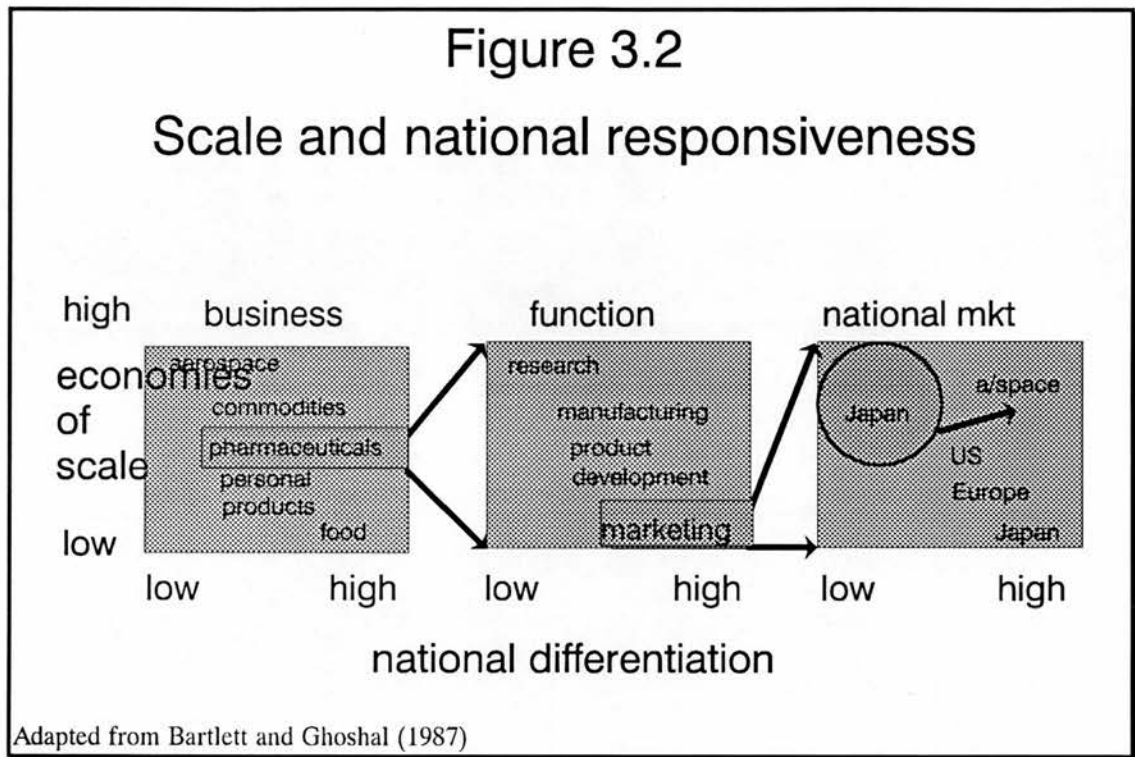
significant impact upon strategic decisions as well as tactical.

This leads to the hypothesis that perhaps the greatest difficulty in becoming a transnational company and thus adapting to the Japanese market in particular, is in reaching the optimal level of national responsiveness without becoming non competitive by sacrificing economies of scale. Becoming transnational usually involves offering a high degree of independence to local subsidiaries. Scale, he states, suggests geographic concentration of manufacturing while responsiveness connotes the reverse. Although scale and responsiveness are in conflict the transnational company successfully achieves both. International firms concentrate all links of the value chain outside the local market. In crucial areas such as sales and service they rely on agents. International firms tend to be centralized, offer standardized products, and serve foreign markets through exporting.



The optimal scale/responsiveness mix varies according to business function, and

national market (Figure 3.2).



The box on the left in Figure 3.2 shows the strategic centre of gravity for different businesses. Aerospace and foods occupy extreme positions with pharmaceuticals in between. Competitive advantage in aerospace is primarily a function of scale, whereas foods are sensitive to a high degree of differentiation in national tastes. The flow of the arrows signifies a hierarchical process. Taking the pharmaceuticals' business as an example its research is internationally oriented but its marketing subject to a high degree of national differentiation. In terms of national markets the US, Europe and Japan are clustered for aerospace whereas for foods those markets would be highly differentiated (Lacktorin, 1990).

3.2.7. INTERNATIONAL MARKETING THEORY IN JAPANESE CONTEXT

Japanese industrial success has often been viewed as a sublimation of Japanese military aggression and that the major Japanese corporations have been seen to co-operate to win over foreign markets has reinforced this attitude. However, Abegglen and Stalk (1985) dismissed conspiracy theory as the rationale behind the success in world markets of the *kaisha*. They argued that their position was because of their choice of competitive fundamentals that include:

- A growth bias
- A preoccupation with the actions of competitors
- The creation and ruthless exploitation of competitive advantage
- The choice of economically consistent corporate financial and personnel policies.

For example, they posed the question whoever heard of Tohatsu? Tohatsu was Japan's leading motorcycle manufacturer. However, Honda replaced Tohatsu (which went bankrupt) by growing its production capability 50 per cent faster than demand called for; thus influencing 45 other producers to withdraw from the market.

Japanese top management regards it as their responsibility to harness the skills of their people and their technologies to maintain employment and employee relations therefore play a major part in the mix of Japanese success factors. As a result, major companies often demonstrate enviable levels of flexibility. Canon, for example, in response to a declining demand for cameras it diversified. Now cameras account for less than one third of its sales. Western companies often delay making such fundamental decisions until it is too late. To reinforce this point Abegglen and Stalk (1985) averred that it is difficult to name a healthy West German camera company. Further, they suggested that by the time Japanese

products have found their way into Western markets the competitive position has usually altered in favour of Japan. Urging that competition can be best met head on in Japan, the competitive battleground, they insist, is inside the Japanese economy and often it has been ceded without any kind of fight. The most effective strategy they argue is to invest in Japan and take advantage of the fast growth by matching Japanese price and quality capability.

Ohmae (1989) drew an analogy between horticulture and organizations by suggesting that no one organizational or business approach is likely to succeed without sufficient care and attention being given to local "growing conditions". He cited problems that have occurred with American enterprises in Japan by their being forced to remain committed to original plans rather than being allowed to respond to the changing demands of the Japanese marketplace. The trick he argues is to become an insider in the Japanese marketplace and make the costs of doing business independent of the home country currency. Ohmae revealed that Matsushita aimed to serve needs all over the world and in so doing expected no repatriation of profits. The result of these actions is that it derives a better understanding of its consumer's needs in whatever territory it operates. Foreign companies, Ohmae alleged, tend to neglect the likely time horizon for investment pay off when considering setting up a Japanese operation.

The obstacles to trade with Japan arouse much controversy. It has been claimed Japan's tariff and non tariff barriers have prohibited non Japanese companies from developing a quid pro quo position in the Japanese marketplace (McKinsey & Co. and Japan-US Trade Group, 1990), but these obstacles are only part of the story. According to Abegglen and Stalk (1985) the Japanese market has been protected from foreign investment in two ways: first by Japanese government regulation and second by foreign companies' "indifference, ignorance, and unwillingness to pay the price with effort and patience" to succeed in it. Whereas McKinsey et al. claim

that those foreign companies that appear to have the highest success profile in Japan are those which are engaging in global marketing.

This issue of global marketing is one that has engendered much debate. Levitt (1983) wrote of a "new commercial reality — the emergence of global markets for standardized consumer products on a previously unimagined scale." His enthusiasm for the "global" concept sparked criticism by Philip Kotler. Attack and defence of the argument were conducted in the letters' pages of international print media culminating in a climb-down by Levitt. He confessed that he had put insufficient emphasis on the requirement to customize standardized concepts as individual markets demand. However, later, Kotabe (1990a) provided some substance to the argument that Levitt's climb-down was somewhat premature, he showed that foreign multinational firms, in particular Japanese firms, increasingly stress the simultaneous strategic importance of product and process innovations; arguing in a marketing context, that it has become important for them to expand commonalities across national boundaries rather than focusing on consumer differences between territories.

The findings of Kotabe and Duhan (1990), suggested that most but not all the PIMS principles found to exist in the United States are perceived by Japanese executives to apply in Japan.² However they found that Japanese marketers placed a greater emphasis upon product-service quality, brand image, and product value than on other strategic dimensions. Moreover, Japanese companies appear to emphasize the same product/value-related strategy variables that they do in foreign markets. They noted those product innovations that are backed by manufacturing process innovations have been found to improve competitiveness much more than would be the case with product innovations alone.

Despite the increasing value of the Yen against the US dollar (it appreciated

² PIMS is discussed more fully later in this chapter.

from ¥360:US\$1 in 1970 to ¥150:US\$1 by 1990), making it more difficult to invest in Japan, the strategic value of the Japanese market has caused many US. based firms to increase their investment in Japan (Booz, Allen and Hamilton, 1990). On the other hand, the success of Japanese companies in international markets is well documented. The reasons for this success are attributed to a variety of reasons, which include: a strong industrial policy orchestrated by MITI (Japan's Ministry of International Trade and Industry (Johnson, 1982). The 1987 US. trade deficit with Japan was \$59.8 billion; almost 40 per cent of its world trading deficit and over 60 per cent of its deficit with the Triad market comprising United States, the European Community and Japan which consumes almost 80 per cent of the world production (Ohmae, 1985). Kotabe (1984) argued that a major influence upon the Japanese success was that of the large oligopolistic trade groupings or *keiretsu* which characterize the Japanese business scene.

Some authors believe that the Japanese success is largely a function of Japanese management style (Pascale and Athos, 1981). Those authors stressed the similarities between Japanese and US management but highlighted the failure at the US end to harness people as a key resource. By harnessing the McKinsey 7s' framework they concluded that Japanese success stemmed from the harnessing of the framework in its entirety whereas US management had tended to over concentrate on strategy, structure and systems and had neglected the "soft Ss". The benefit to Japanese corporations, they noted, has been a high degree of shared understandings and beliefs about their company, about what takes priority and what is expected of them, and about their high value to the company. Development of high levels of sophistication on each "S" comes at a high cost; it requires commitment to individuals, a preparedness to support them through tough times and help them develop. Every firm has to evolve its own way of being good at all the Ss and their fit to one another. Mechanistic, "programmatic" solutions that do not

change how executives behave, are likely to fail. The task is not to imitate cosmetically, but to evolve organically. Each company, like each individual, has to develop in its own way.

In Matsushita, Pascale and Athos maintain, employees are urged to learn from their mistakes. However the company's basic principles are enshrined and employees deviating from the following could be expected to be dismissed:

- Mission: To recognize our responsibilities as industrialists, to foster progress, to promote the general welfare of society, and to devote ourselves to the further development of world culture.
- Employees creed: Progress and development can be realized only through the combined efforts and co-operation of each member of our Company. Each of us, therefore, shall keep this idea constantly in mind as we devote ourselves to the continuous improvement of our company.
- The Seven "Spiritual" Values: National service through industry; Fairness; Harmony and co-operation; Struggle for Betterment; Courtesy and Humility; Adjustment and Assimilation; Gratitude.

According to Pascale and Athos, these values, taken to heart, provide a spiritual fabric of great resilience. They foster consistent expectations among employees in a work force that reaches from continent to continent. They permit a highly complex and centralized firm to maintain a continuity that sustains it even when operational guidance breaks down and when compared with American firms of the same vintage it is difficult to find one with the same vitality. They concluded that it must be caused by Matsushita's value system (Pascale and Athos, 1981:76).

Further, Kotler et al. (1985) proposed that a major reason for Japanese economic dominance was its apparent willingness to suffer losses in markets in order to build its position. Those authors also stressed that Japanese firms and their use of marketing have been one of their major contributors to their success in the

US and elsewhere. Moreover, they contended that the lack of success of American firms in Japan was due to their lack of Japanese market understanding. This is partly, they emphasized, due to the abundance of published information in the business field that is based upon American experience and situations, thus availing others with a ready made opportunity to learn about the US. Whereas the same situation does not exist in reverse (Kotler et al., 1985). This is an issue which in some modest way this thesis addresses.

Kono (1984) claims that there is a greater use of long range planning in Japan than there is in the UK, at least as far as larger corporations are concerned. The explanation for this is the much talked about longer term orientation of Japanese companies. The cause of this, he argues, is pressure from "middle management" as a result of their long term, or indeed lifetime, employment expectation. He argued that the main reason for using planning in each country is to clarify goals.

By applying the fifteen criteria of determining whether a company is a good competitor established by Porter (1985) to Japanese companies, Brouthers and Werner (1990) concluded that Japanese corporations tend to have no clear self perceived weaknesses and (unsurprisingly) they do not play by American rules, nor do they have strategies that are inherently self limiting. Moreover, they showed, that Japanese corporations have high exit barriers that is to say they do not retreat easily. Their goals are irreconcilable with those of American firms. They have high strategic stakes and tend to view return on investment, profitability and cash generation differently. Furthermore, they have long time horizons and are risk averse. The Porter (1985) recommended response to such situations would be to:

- Abandon the industry
- Attempt to change the "bad" competitors into good ones
- Prepare for a protracted siege.

Given knowledge of Japanese corporations and the existence of some deeply rooted

links between their behaviour and the Japanese culture, such recommendations appear naïve as they would virtually preclude any foreign company attempting to enter the Japanese market.

Although, as was mentioned in Chapter 1, foreign companies have not matched Japanese FDI reciprocally, Lacktorin (1989) showed that 19 of the top 27 Fortune 500 manufacturing industries are represented in Japan in the form of direct investment. Eighty-four per cent of the Fortune 50 have direct invested, 74% of the Fortune 100 and 64% of the Fortune 200. However their stakes may be small: Japan is home to 1,300 manufacturing firms with foreign capital of at least 50%, the nearly \$10 billion in gross equity capital invested by foreign firms in Japan over 38 years between 1950-1988 compares to \$45 billion invested by Japanese abroad in 1988 alone. As of 1986, Japan's cumulative FDI position in foreign countries was seven times higher than that of the total of foreign countries' positions in Japan.

While it may often be cost effective to manufacture in Japan, Lacktorin argues that it is critical that the foreign company makes significant investments in marketing, service, and R&D facilities to establish and maintain contact with the consumer. Only in this way is it possible to design products to satisfy Japanese consumers and to compete in this very difficult market.

It is true that there is a lack of true understanding of the Japanese market that extends through the distribution system to the strategic environment of Japanese markets (Lazer et al., 1985). However, as Smothers (1990) argued, these problems are not always insurmountable since additional strategic advantages emerge for firms that are able to identify unfamiliar patterns and forge strategic links between them. It has been argued that to survive in Japan, foreign-affiliated companies in Japan must adapt to but not mimic Japanese responses to a radically unfamiliar industry structure, style of competition, and process of decision making (Jones and Ohbora, 1990). Those authors argue that "soft integration" in many Japanese

industries; the competitive emphasis on aggressive "product churning;" channel suffocation; and the lack of strict reliance on quantitative analyses — all of these factors call on Western managers to respond in what they must feel to be "heretical" ways. The heresy is necessary — and unavoidable. One form of heresy is to offer a high degree of independence to local subsidiaries (Lacktorin, 1990).

Earlier, Kotler (1986) indicated that often market opportunities occur on a bigger stage than that on which tactical marketers are geared to perform. For instance PepsiCo outwitted Coca Cola in India subsequent to the latter pulling out of the market in protest at then government policies. PepsiCo worked with an Indian group in a joint venture under terms that were designed to win government approval. PepsiCo also offered to bring new food processing and water treatment technologies to India. Moreover the Japanese government supports Japanese companies by lobbying the Indian government for a relaxation of the ban on Japanese products either by the transformation into quotas or normal tariffs. In return Japan offers to buy more Indian goods and services. Such actions are way beyond the remit of marketers. As a result he argued that marketers should learn to harness political power in their strategies.

What we have seen so far in this section is a variety of views and perspectives. These have included how knowledge and experience of a market aid commitment to it and that the speed at which commitment grows depends upon the actors involved. We have seen how the process of market development will be aided or impeded by cultural obstacles and development of marketing channels involves different processes and costs according to which parts of the channels are being developed whether the thrust is for market development or distribution development. The process model views internationalization as an incremental process and provides an explanation of market development, albeit one that is biased toward manufacturing operations. Moreover as a company reaches a more "mature" stage of

internationalization it can develop its activities with greater confidence. It was also claimed that psychic distances are shortening and caution was urged that the internationalization process theory may not be valid for service industries.

Japanese corporations offer a learning model in the way they create competitive advantage and their behaviour is to some extent explained by network theory. The contentious debate on globalization, introduced by Levitt (1983) is largely unresolved but some light will be shown later in this thesis. We shall see in Chapter 5 that companies that are successfully "transnational" often learn to balance market responsiveness with economies of scale which at the micro level reduces to the pros and cons of standardization versus decentralized customization. Keegan (1989) classified the strategic approaches commonly adopted thus:

- Standardization
- Decentralization
- Interactive
- Customization of Global Marketing.

I will now briefly review each of these topics.

3.2.8. STANDARDIZATION

Walters and Toyne (1989) emphasize that much of the debate on standardization has "unfortunately" focused on the extreme of complete uniformity versus full localization. Such a debate of polar opposites can, however, be counterproductive. Indeed, Porter (1986) wondered whether the wrong questions had been asked and suggested that the asking of the alternative question "should we standardize our marketing activities or not" may have led to different conclusions.

Various studies, (Aylmer, 1970; Kakker, 1972; Sorensen and Weichmann, 1975; Bakker, 1977; Aydin and Terpstra, 1981), point to the product policy area as the one where the tendency of firms toward international standardization is greatest.

Moreover, Takeuchi and Porter (1986) argued cogently that the physical standardization of the product is of supreme importance from a strategic viewpoint. They suggested that with physical product characteristics, three basic types of practice may be distinguished: universal, modified and country tailored product policies. Universal products are physically identical from market to market; modified products are substantially similar in all markets whereas country tailored are localized.

According to Keegan (1989:595), there are tremendous cost advantages in having a global marketing plan and such an approach can limit needless product and advertising proliferation. He stressed that this standardized approach when applied by the Italian white goods' industries enabled longer runs, lower costs and increased share of world markets. Moreover, he contended that standardized product can yield benefits to consumers who travel and thus enjoy a standard product wherever in the world they happen to be. The fact remains however that the majority of consumers remain static more of the time than they are internationally mobile.

In their survey of 100 senior executives among 27 packaged goods' companies Sorensen and Weichmann (1975) found that on their index, 63 per cent of the total marketing programmes were judged to be highly standardized. The highest degree of standardization being with product design, brand names and packaging. However pricing decisions were found to be less standardized as manufacturer's costs, competitive prices, taxes and market positions varied from country to country. Advertising and promotional messages were found to be highly standardized in over three quarters of cases. Their major finding was that the real advantage for the multinational company is derived from the extent to which it is able to standardize the marketing process as opposed to its marketing programmes. Such a standardized process, they claimed, imparts a disciplined framework for sharing experience and importing ideas from one market to the next.

Dunn and Yorke (1974) indicated that from 1964 through to 1973 the proportion of companies using the same basic message abroad as at home declined. Research investigating the effectiveness of standardization as a basis of communicating with global audiences has produced mixed results. However in her study, Mueller (1991) found that the overall usage of standardized messages was more common for advertisements transferred between Western markets than for messages transferred from Western to Eastern markets.

Quelch and Hoff (1986) identified four dimensions of what they term global marketing: business functions, products, marketing mix elements and countries. On each of these dimensions they compared the approaches of Nestle and Coca Cola for adaptation versus standardization. They found that Coca Cola had standardized its methods much more than had Nestle. This framework is used later in Chapter 6 to compare the companies in this study. In so doing it will be shown that these global generalizations do not hold for these companies in the Japanese marketplace of the 1990s. In particular those two companies Coca Cola and Nestle were found to be highly adapted to the Japanese market.

The dimensions of the Quelch and Hoff analysis were:

- Business functions
- Products
- Marketing mix variables.

3.2.8.1. Business functions

Standardization, according to Quelch and Hoff (1986), can be greater in production, R&D or finance than in marketing as the latter is more difficult to measure. Of course there is often a power pull between HQ staff and local management irrespective of whether genuine market expertise exists at the HQ level.

3.2.8.2. Products

Products that possess high scale economies or efficiencies and are not highly culture bound are easier to market globally than are others. Quelch and Hoff argue that efficiencies passed on with lower prices can overcome most culture bound market obstacles. While this may be true in Third World markets, it will be shown later that in Japan, success will not follow unless Japanese quality standards can be assured. Creating the perception of quality is no easy task in Japan. Moreover consumer packaged goods do not lend themselves quite so easily to manufacturing economies. Quelch and Hoff argued that, in Nestle's case, the main advantage of global marketing was the global utilization of marketing ideas. Products that are used in the home such as soups and food products are, they assert, generally more culture bound than are products that are used externally such as credit cards and cars. Also where the main consumers are young people or those who travel frequently between cultures the degree of cultural bounding is lessened.

3.2.8.3. Marketing mix elements

Few consumer goods' companies market the same product world-wide using the same marketing programme. The appropriate degree of standardization varies from market to market. Strategic elements such as product positionings tend to be more centrally controlled than are execution sensitive elements such as sales promotion. However Quelch and Hoff argued that when headquarters believes it has a superior idea, whether that be with packaging design, product concept or whatever, then it pressurizes its subsidiaries to adopt it. However they did admit that where foreign markets are large and local management is strong, more resistance to HQ intervention can be expected.

3.2.9. DECENTRALIZATION

The relaxation or adaptation of policy and strategies is clearly linked with decentralization policy. In one of the classic texts, Brooke showed that there was no ultimate reality in the centralization debate and that companies did not exhibit any steady state of progress either toward centralization or away from it. Moreover, they were moved backwards and forwards by opposing forces (Brooke, 1984).

Zaichkowsky and Sood (1989) indicated that the advertising industry is split over the degree to which global campaigns should be put to work. In their work they identified usage patterns and compared them to involvement scores over a wide range of markets. According to those authors, product involvement varies across markets but it does not necessarily relate directly to consumption patterns. Many companies have simply found centralization too difficult a method to work with and have thus devolved decision taking to the markets (Keegan, 1989:596). Ohmae (1989) argued that problems of inflexibility stem from a reluctance to decentralize strategic decisions and this problem is one that has beset many American companies, in turn it is almost entirely responsible for a diminution in the US market share position in the Far East.

Others have attempted to look specifically at the Japanese market and evidence has emerged that market share structures and PIMS data were comparable (Campbell, 1988). Like many similar studies however, the scope of his work was limited and likewise it suggests those business principles that apply in the United States and elsewhere can also be applied in Japan, although the degree to which such generalizations can be made is limited.

3.2.10. INTERACTIVE

Keegan (1989:596) described this approach as an intelligent hybrid system where local personnel are able to ensure that the marketing plan takes account of local conditions and opportunities with headquarters remaining in a state of constant alert in an attempt to achieve a high level of performance versus the advantages of decentralizing staff activities and assigning people direct to activities. For example some companies have successfully centralized advertising strategy decisions whereas others have centralized product design.

3.2.11. CUSTOMIZATION OF GLOBAL MARKETING

Despite the noise on this issue, the vast majority of managers view the advantages of globalization as being more theoretical than real (Morrison et al., 1991). Keegan (1989:599) made the point that to view global marketing as an all or nothing affair is to miss the point. Flexibility, he argued, is essential and argued that managers should tailor their approaches to fit their own products with market situations. Furthermore, Graves (1989) emphasized that flexibility is a great strength in Japanese companies. He asserted that the image of the Japanese company as based on fixed traditions and as a result becoming dysfunctional, is an outmoded idea and was misplaced anyway. There is a flexible trait at its core, an irreverence for organization that keeps it relevant to its environment.

This is especially true when companies are attempting to read the Japanese consumer. Even shared consumer tastes do not mean a product can succeed worldwide without adjustments for different countries, and this ability to fine tune products depends on accurate knowledge of tastes and lifestyles in different regions. Reinforcing this view, Ohmae (1987) infers that by gaining knowledge through establishing a presence in countries where it has major sales; a firm can become an insider for which many markets will remain open.

Having reviewed the focal theory; we will continue on a rather lengthy review of the background theory.

3.3. STRATEGIC MANAGEMENT AND MARKETING

Now that we have considered the focal theory of international marketing strategy, in particular the implications that international theory has for the Japanese context, I will now deal with the background theory consisting of general issues of strategy, followed by marketing issues later on in the chapter. In doing so, I intend to illustrate the context in which these issues of international marketing strategies are dealt with in companies.

Since marketing strategies are conceived and implemented in the context of frameworks established by strategic management decisions and often based on corporate plans, I will now explore the relationship between marketing and corporate strategy. In one of the earlier references on corporate strategy Andrews (1971:18) stated: "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the type of economic organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities." Marketing decisions and strategies contribute to all the above.

When executed, marketing strategies constitute a stream of actions that contribute toward the overall pool of behaviours of the enterprise. So, we will review some evidence in the process of modifying the behaviour of organizations in ways that impact upon the corporate positioning and in so doing scrutinize the relationship between marketing and corporate strategy. I will show those textbook "templates" often fail to mirror reality and that the implementation and execution of

strategy are beset with difficulties, perceived and real, irrespective of the market situation.

Strategic management decisions are made considering corporate strategic policies and influenced by them; and, we will here review some of the key and often conflicting views of the strategic management and marketing planning processes. This is particularly germane since some authors argue that the reason for Japan's success is based on the strategic strengths of the *kaisha* (Abegglen and Stalk, 1985; Doyle et al., 1986; Keegan, 1983; Kotler et al., 1985; Lacktorin, 1990; Porter, 1990). Operational marketing activities such as product planning and market development have to be resourced according to the priorities established by strategic corporate plans so that it would be myopic to consider marketing in isolation.

3.3.1. NEED FOR STRATEGIC MANAGEMENT

Major corporations frequently appear to make monumental strategic mistakes so much so that no amount of sophisticated marketing can redress their errors. As Porter (1987:19) has indicated, the annals of corporate history are permeated with countless instances of major investment errors that can be attributed directly or indirectly to ineffective strategy formulation and/or ineffective execution. Such failures can help explain why, for example, Guinness underwent a major diversification program, only to reverse its direction following the controversial resignation of its Chairman in Spring 1987; they can also explain why IBM had by 1987 suffered a dramatic decline in its position among the Fortune list of most admired companies — a decline apparently related to the charge that "Big Blue" had been slow to adjust to the concept of the personal computer (PC) and had locked itself into its traditional arena of mainframe technology. The heritage of these mistakes caused it to announce massive lay offs in late 1991 along with a radical

international reorganization.

Porter (1980) argues that, when assessing strategy, full account should be taken of the need to incorporate the total situation. In so doing it is essential to understand the environment in which the industry operates and relate company strategy specifically to the environment. Like many writers, he stresses that fit between the organization and its external environment is critical, but he gives scarce mention to strategy implementations or to the processes of consensus formation necessary for policy to be effectively developed.

To make improvements to the behaviour of an enterprise is extremely difficult since frequently the necessary commitment and energy (including alterations to the organization and/or the people in it) do not exist in companies. It requires a great commitment perhaps. Lawrence and Lorsch (1967), for example, explored what types of organization are most effective under different environmental conditions. One characteristic that the top managers in these organizations seemed to have in common was a constant search for ways to improve their organization's functioning. They found those star companies in the business of fast moving speciality plastic's industry had a more decentralized organization, whereas the top performers in a more stable slow moving industry had simple functional organizations and simple control systems.

Every firm competing in any industry has a formal as well as an informal competitive strategy. Strategies may often be implicit. They may have resulted from a planning process, or stemmed from the activities of various departments each pursuing its own approaches. Porter (1980) argued that the sum of such disparate approaches rarely constitutes the best strategy, and argued that a strategic approach is best planned with the outputs integrated into a cohesive set of mutually supportive actions.

3.3.1.1. Explicit approaches

In the literature there is a wide, though not unanimous, body of agreement regarding the nature of strategic management and planning. "The widely accepted theory of corporate strategic planning is simple: using a time horizon of several years, top management reassesses its current strategy by looking for opportunities and threats in the environment and by analyzing the company's resources to identify its strengths and weaknesses" (Vancil and Lorange, 1975). It is often portrayed as a dynamic process by which companies identify future opportunities. They then link their evaluation of issues with endeavours to grow or acquire resources so that the business can be positioned to benefit from its strengths. All this occurs against the back-cloth of a changing situation. This view reflects the perceptions of strategy held by that body of scholars to whom Mintzberg (1989) referred as the "design school," primarily represented by Ansoff (1965). The flows and processes, typically expected in that view of strategic planning, together with their links with marketing strategy are indicated in Figures 3.3 and 3.5 to 3.7.

Ansoff (1965) produced a pioneering work in the field of corporate strategy. There are, he indicated, three types of decision: strategic, administrative, and operating. Strategic decisions, he argued, are concerned with the product-market scope which comprises the products that the company sets out to supply and the markets in which it attempts to supply them. This is one of the fundamental aspects of what will later be referred to as corporate positioning — the collective effect of the brand positions in the product portfolio of the enterprise, coupled with the net sum effect of its marketing mix strategy. He was subsequently supportive of a positive relationship between planning and corporate performance (Ansoff et al., 1970). We will see later that achieving a sound corporate positioning is a key to success in the Japanese context.

3.3.1.2. Other views

While it is true that much of the literature considers the approach to strategic planning and management in the above way, there are other schools of thought, notably that of the incrementalist school. Lindblom (1959) described the strategy formulation as "muddling through." He was followed by some notable others (Quinn, 1980; Pondy and Huff, 1983). They argued that a "logic" exists in incremental strategy development insofar as, by learning through doing (a description that suits the Japanese approach to product planning)³, it facilitates decision making and implementation within the political context of an organization. In attempting to solve complex problems — which strategic ones arguably are — Lindblom (1959) argued that the manager has neither the intellectual nor informational resources to rely on. If pressed, the manager would admit that he was ignoring many related values and many consequences of his policies...for complex problems the intellectual capacity and sources of available information do not exist. A more realistic model, he argued, is the method of "successive limited and important comparisons." In this model, analysis is drastically limited and important possible outcomes are neglected. Subsequently he noted that the incremental manager is a "shrewd, resourceful problem solver, wrestling bravely with a universe he is wise enough to know is too big for him" (Lindblom, 1968). In a later paper, he criticized idealized models of decision making as being over simplistic (Lindblom, 1979). In particular, he castigated Sorenson's model of decision making (Sorensen and Weichmann, 1975).⁴

³ See Chapter 7

⁴ This comprises:

- fact agreement
- agree overall policy objective
- define problem precisely
- canvas all possible solutions
- list consequences that flow from these solutions
- recommend and choose ideal alternative
- communicate the selection

The phrase which Lindblom (1979) employed to describe this kind of approach was "simple minded inadequacy." Instead he offered a "branch" method, by which he meant that managers went along the familiar branch on a tree of development and restricted themselves to policies in areas of familiarity. As a result their stratagems may not stand scientific scrutiny, but they feel comfortable with them. Lindblom regretted the use of the term "muddling" because it implied that managers operated by intuition whereas it is perfectly reasonable when a problem is too big for the minds of decision takers that they should simplify them and apply their powers of rationality within more limited boundaries.

The political context of any organization is very real. Livingston (1971) attested that while to be described as a political person within the context of an organization may not sound complementary; the development and uses of power, authority, influence, and politics are natural adjuncts to the processes needed to formulate, shape, and implement strategies. This area has been explored extensively by Mintzberg and Waters (1983) in which they sought to understand the complex process of strategic change over time and within the confines of the culture of the organization. For example, Stevenson (1976) found that managers tend to treat strengths differently from weaknesses, as has this author (Reid, 1989b). Stevenson argued that the manager's position and responsibility in the organization are crucial influences on the way in which he carries out the process of defining strengths and weaknesses.

Before the term "logical incrementalism" was coined by Quinn (1980), Ansoff (1972) had previously identified the existence of behaviours that he described as "maintainers of equilibrium." Quinn, however takes issue with this interpretation and infers that Ansoff missed the point by believing that managers were just

muddling through. His point is that "logical incrementalism" is what it says and that it is a purposeful, effective approach adopted by a skilful manager. Its application, he argues, improves and better integrates both the analytical and behavioural aspects of strategy formulation. Mintzberg (1977), supports this view and sees incrementalism as a management learning process. Later he supported the idea of an incremental pattern of strategic development and differentiated between "intended strategies" and "realized" strategies (Mintzberg, 1978). Realized strategy was taken as the observable output of an organization's activity and this was operationalized by its positioning over time. Intended strategy is the strategy that managers espouse.

In another article giving examples of how real managers do not behave according to the "strategic models" in the literature, Wrapp (1967) views the management process combining formulation and implementation as being entirely behavioural and political. He also noted that most important strategic decisions occur outside the formal planning structure even if the organization has a highly developed planning culture. He then went on to question the emphasis that is placed in the management literature on the development of sophisticated models that do not mirror the real behaviour exhibited by organizations.

Later Wrapp (1979) argued that:

Good managers have always been a scarce commodity, but today the supply is rapidly drying up, and many of those remaining are being organized into impotence. Just as bad money has always driven out good, so the talented general manager — the person who makes a company go — is being overwhelmed by a flood of so called professionals, textbook executives more interested in the form of management than the content, more concerned about defining and categorizing and quantifying the job than in getting it done... They have created false expectations and wasted untold man-hours by making a religion of formal long-range planning.

The concept of incrementalism has become accepted as a major descriptor of the

strategic management process. It was certainly useful in understanding the descriptions of Japanese corporate behaviour obtained during this study. Quinn (1980) highlighted some key observations regarding planning in major enterprises. One was that planning is often a bureaucratic procedure resulting in paper documents which at their most positive tend to result in another method of securing control. In other words it becomes a weapon of organizational politics rather than one that achieves a refinement of direction.

The proposition established by Quinn (1980) is that instead of following rigidly developed planning procedures, strategies are developed through processes not explained by the models that Wrapp criticized, or rather he argued that "managers consciously and pro-actively move forward incrementally." In addressing the issue of corporate positioning, he argued that formal planning approaches only assist as long as the general nature of the contingency has been anticipated. However there are instances where major unanticipated circumstances have brought about major changes in positionings, for instance: General Motors and the Oil crisis, Pilkington and the emergence of Float glass technology. Often recognition of the significance of a change requires some time; therefore reaction to it is more likely to occur on an incremental basis. Quinn (1980) lays out the textbook picture of the formal rational planning or design school model⁵. He makes the point that it is well understood that managers do not always conform to that model but highlights the idea that it is assumed that their failure to do so is a defect that somehow could be rectified.

Quinn's argument is that managers do not and should not make their strategic

⁵ Analysis of strengths and weaknesses; profit projections; external environmental trends; opportunities and threats; establish broad goals; identify gaps; communicate plans to divisions; occasionally make special studies of alternatives; review divisional plans; develop long term budgets; assign implementation of plans; monitor and evaluate performance.

decisions in the way set out above. He suggests four ways in which effective strategies are in reality made: businesses consist of sub systems and each considers company wide issues in a disciplined way but does so opportunistically and incrementally; each sub system has its own agendas; because of the independence of agendas the organization behaves in the same way and steers a course between those agendas of the sub systems; skillful managers who use this incremental approach are not muddling through, they are using it to improve the quality of decision making and purposive action. Thus the different units are pursuing company requirements through their individual lenses and the company has to take account of the interactions between these sub systems.

Wheelwright (1984) asserted that strategic management has been largely dominated by portfolio analysis, experience curves, market share and other concepts of competitive strategy since 1970. While he acknowledges their potential he warned against blind adoption and appraised their advantages and advocated an incremental value based approach. As Bateman and Zeithaml (1989) indicated, the decision making process is dependent not only on objective information and rationality, but also on decision makers' cognitions about the world — a view shared with Anderson and Paine (1978); Das (1986); Mitchell et al. (1986); Simon (1957); Weick (1983). Decisions in the context of an organization, in particular strategic decisions, are the result of a pattern of organizational behaviours that occur over a time and reflect a series of individual decisions that are taken (Mitroff et al., 1977). For example a decision to develop a position in the Japanese market would involve inputs from many key people and would be unlikely to happen instantaneously.

Bateman and Zeithaml (1989) developed a model of the psychological context of strategic decisions and determined that the future of decision makers is likely to be conditioned by past events and current conditions. Although these findings were

experimentally determined they are no more than most people would intuitively believe. In the Japanese context it would imply that a failure to make progress in Japan during its obstructive era would deter management from later attempts.

While there are many articles that argue that business has much to learn from the military approach to strategy, for example (Widmer, 1980), Weitz and Wensley (1984) cautioned that much strategic thinking is based upon military analogies but these may be ill founded. The first false assumption is that certain resources are only available from directly controlled supplies. However in a business situation the company may go outside to procure resources not available within its "armoury," viz.: creative advertising, cash, etc. Military strategy assumes that resources may not be available at market prices. That territorial boundaries are adjusted at the expense of the enemy is the second assumption of military strategy, but this view that competition is a zero sum game does not fit many market situations, for example, the result of new competitors can be to cause the market to grow.

What has been identified so far is that there is a measure of agreement that a "process" exists in the development of strategy, but in the execution of that process the players branch off and deal with issues incrementally before re-joining the process. That process element can be represented by Figures 3.3 and 3.5 to 3.7.

3.3.2. LINKING STRATEGIC MANAGEMENT WITH MARKETING STRATEGY

The starting point in linking strategic marketing with strategic planning and management is by way of the corporate positioning which has three components (see Figure 3.3):

- Corporate mission;
- Market segmentation;
- Arena selection.

As Abell and Hammond (1979) indicated, a strategic plan is not the same as a marketing plan. The former plans all aspects of an organization's strategy in the marketplace, while the latter, in contrast, deals with actions surrounding the products and market segments. As is shown in Figure 3.3, in strategic marketing planning, five analytical building blocks are required:

- Environmental data;
- Consumer and market understanding;

Followed by analysis of:

- Competitors;
- Relative strengths and weaknesses;

before formulating:

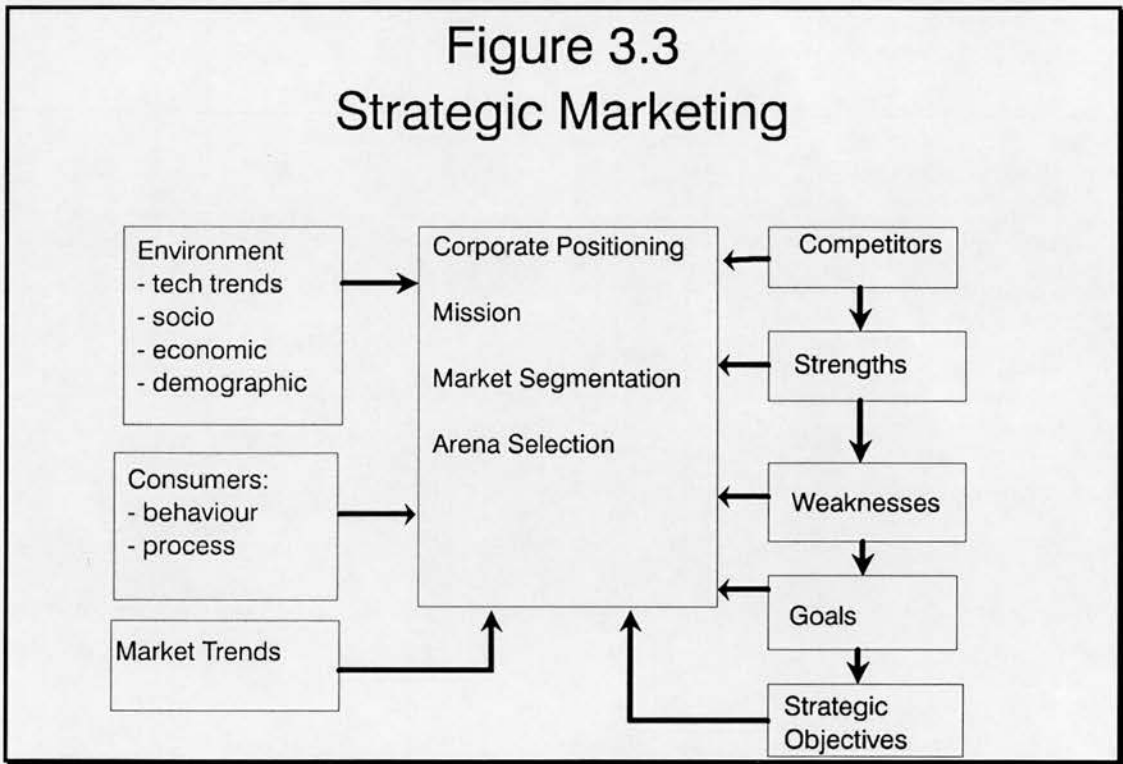
- Goals and strategic objectives.

These topics will be reviewed in turn.

3.3.2.1. Corporate mission

Mission statements are intended to impart a sense of vision to all relevant players in the business. Such statements are considered very important in Japan, certainly Matsushita (1979) considers the matter of crucial importance "...without a philosophy there is no point in business." By defining the mission in need terms,

the role of technology can be highlighted and put into perspective. In this way, genuine opportunity areas can be charted. Moreover by being committed and communicating that commitment, the mission can serve to motivate all those who play a part in shaping the future of the business. As Ohmae (1982) argued, "successful business strategies result not from rigorous analysis but from a particular state of mind." He is not alone in believing that the Japanese success is largely a function of Japanese management style (Pascale and Athos, 1981).



Porter's (1985) second book attempts to correct some of the deficiencies of his first — which ignored execution by people almost entirely — first in the chapters on horizontal strategy and inter-relationships; these chapters describe how an organization may produce "synergy" between organizational sub units. However these chapters offer little advice to management and touch on behaviour only tangentially, an important omission, for as Quincy Hunsicker (1980) asserts, no

matter how sophisticated or smooth the strategic planning process, it will not yield perceptible benefits unless the process begins with good creative ideas and ends with the management resolve to execute the plans thoroughly.

A key factor in mission formulation is consensus; it follows that if all agree that the direction is the correct one then they are more likely to pursue the direction with enthusiasm. This trait is one that Keegan (1983) indicated is prevalent in Japanese companies. However, according to Morita (1987), consensus in most Japanese companies means the elimination of individuality. "At Sony people are encouraged to bring their ideas out into the open because it is believed that if ideas clash something better may develop from the conflict". And, according to Ohmae (1981), Japanese management keeps telling the workers that those at the frontier know the business best. In this way it is argued that ... "Well run companies rely heavily on individual or group initiatives for innovation and creative energy."

3.3.2.2. Strategic market segmentation

The next step is to segment the market at a strategic level as Abell and Hammond (1979) suggested. That is to say that relatively homogeneous sections of the market should be identified for which the company deems it worthwhile to offer modified or dedicated marketing mixes. These segments imply sub markets composed of customers with common uses or applications (Day et al., 1979). They are segments that can be expected to have similar patterns of purchase or usage behaviour (Frank et al., 1973). In this way decisions can be made to determine the product-market scope or as this author prefers it, select arenas.

3.3.2.3. Arena selection

Arenas are areas of consumer opportunity where competitors compete to satisfy the needs of their target consumers. Arenas are consumer need based and competitors may compete by way of the products and technologies of their choosing, technologies being substitutable. An arena may comprise one or more market segments. It is necessary to identify key arenas to foresee with which competitors the enterprise will have to contend, and against which the strengths and weaknesses of the enterprise may be compared.

Attempts, were made by Day et al. (1979), to examine the needs of marketing planners for strategic analyses of competitive product-markets. They found that seldom do the approaches that stress similarities of production processes, function or raw materials give a satisfactory picture of either the threats or opportunities facing a business. Market definitions tend to be narrow, reflecting a short term orientation in the sense that there is a "chunk of demand to be filled with the resources at my command," whereas the concerns of strategic planning are to reveal a larger product-market to account for:

- Presently unserved potential markets
- Changes in technology, price relationships, and supply which broaden the array of substitutes
- The time required by prospective buyers to react to these changes.

They define a product-market as "the set of products judged to be substitutes, within those usage situations in which similar patterns of benefits are sought, and the customers for whom such usage's are relevant." While the choice of one definition of market over another may be indefensible, Day (1981) indicated that the effect upon the business may be profound and the choice of market definition may depend upon the type of analysis that is employed.

3.3.2.4. Environmental Scanning

Environmental scanning is advocated as the key activity that enables opportunities to be identified (Aguilar, 1967, Keegan, 1974; Keegan, 1983)⁶. Conducting this type of analysis appears deceptively simple but in practice it is inordinately difficult. "It requires data, imagination, experience and good conceptual skills" (Abell and Hammond, 1979). Harvey (1982) gave the following as the reasons why strategists do environmental analysis:

- Accelerating rate of change
- Changing opportunities and threats
- Companies that do tend to be more effective

Some techniques of environmental analysis are:

- Scanning and information gathering (Keegan, 1974:13)
- Expert opinion such as professors, consultants, etc. (Harvey, 1982:97) In particular, there is the "Delphi" method that involves using a group of knowledgeable people who make anonymous predictions that are then summarized by computer and fed back to the panel until a consensus is reached.

Competitive intelligence may be obtained by way of a variety of approaches both ethical and unethical such as:

- Buying competitive product and analysing it
- Field force feed back
- Key people spend a few days per year talking to end customers
- Sales force de briefings
- Hiring or pretending to hire competitor personnel (Harvey, 1982:108).

Drucker (1985) emphasized the importance of interpreting and responding to environmental intelligence: the House of Rothschild, he disclosed, was the world's

⁶ See later this chapter in section 3.4.2.5

most dominant financial power but it failed to evaluate the significance of the many people who were emigrating from Europe to North America; Rothschild believed that only "riff raff" would leave Europe. Whereas J.P. Morgan took over Rothschild's remit by establishing a world wide bank in New York, rather than in Europe. This it did by financing immigrant based industries in North America.

Porter (1979) proposed that "In the fight for market share, competition is not only manifest in the other players. Rather, competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industries." Changing conditions may also play a major part in the destiny of an enterprise, for example, when the Polaroid patents expired the cost entry barrier built by proprietary technology was removed. It was not surprising that Kodak plunged into the instant camera arena. What Porter did not mention was that it was a disastrous move because the consumer held a particularly well defined perception of Polaroid and Eastman Kodak's launch advertising expenditure was easily translated into sales for Polaroid as a result of Eastman Kodak's inability to ensure adequate retail inventories of its product (Kotler, 1988). Later we will explore Eastman Kodak's entry strategy in the Japanese market.

Linneman and Klein (1985), showed that a high percentage of US companies use environmental scenarios in strategic planning. Scenarios, they argue, provide a visible way to present changes in the operating environment. They make the point that studies have shown that the perceived usefulness of multiple scenarios is directly related to management's involvement in the process. Leemuis (1985) mentioned that Shell Nederland has experimented with a process of strategy development over the last few years. They learned that corporate planners require

flexibility to gear their approaches to operating managers and one of the key approaches in offering such flexibility has been the application of scenarios.

The result of environmental scanning may well produce an intuitive appreciation of opportunities. As Drucker (1985) noted demographic shifts are difficult to predict but the prize for doing so is valuable. He offered the example: "The drop in infant mortality in the Third World can be explained only in retrospect. It was caused by a convergence of old technologies; the public health nurse; placing the latrine below the well; vaccination; the wire screen outside the window; and of very new antibiotics and pesticides such as DDT. Yet it was totally unpredictable."

3.3.2.5. Consumer and market data

Scanning data, as we shall see later in this chapter under the heading Probe in section 3.4.2.5 is often a prelude to the procurement of more specific market and consumer research data. When the acquisition of this data leads to a better understanding of the consumer behaviour, it forms an important building block for marketing and strategic decision taking.

3.3.2.6. Competitor analysis

The value of the arena concept is that it helps pinpoint existing and potential competitors, the latter being those that can serve the same groups of needs, irrespective of their technologies (Levitt, 1960). As Hamel and Prahalad (1989) asserted, few Western companies have good track records in anticipating the movements of global competitors and that is due to the way they have approached competitor analysis. Indeed, it is only after the competitors have been identified that the company's own strengths and weaknesses may be assessed, for they are relative to competitors. A major weakness of SWOT (strengths, weaknesses, opportunities and threats) analysis is that it often misses this critical point (Reid,

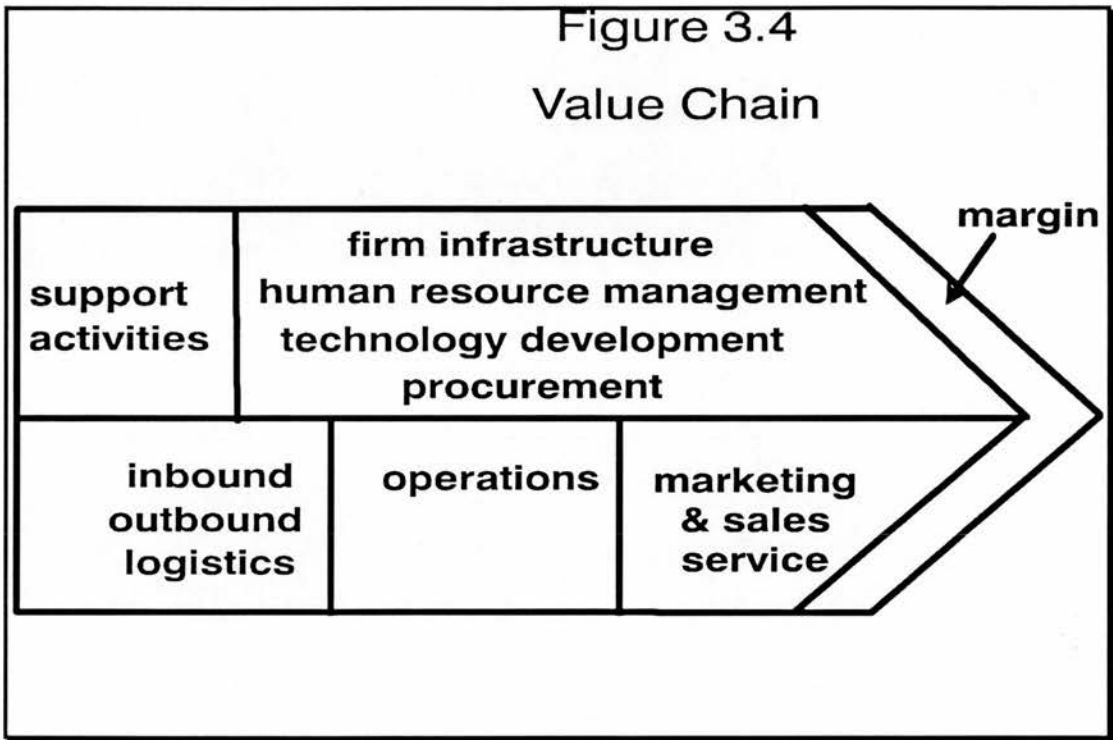
1990).

3.3.2.7. Relative strengths and weaknesses

Porter (1979) highlighted that strategic decisions involving a large segment of an industry can have a major impact upon the threat of entry. For example, US wine producers in the 1960s increased product introductions, raised advertising levels, and expanded distribution channels. In that way they increased the barriers by improving economies of scale and making access to distribution channels more difficult. Similarly, Dr Pepper took advantage of its unique flavour to "piggy back" on Coke and Pepsi bottlers who wanted a full line to sell to customers; a strategy shown to be important for foreign companies developing a position in Japan (Schofield, 1988). Exploiting industry change and industry evolution is important strategically because evolution brings with it changes in the sources of competition (Porter, 1979).

Later, Porter (1985) proposed the value chain as a basis for identifying potential competitive advantages. Arguing that every firm is a collection of activities that are performed to design, produce, market, deliver, and support its product, the value chain disaggregates a firm into nine strategically relevant activities to understand the behaviour of costs in the specific business and industry as well as the existing and potential sources of differentiation. The nine value activities consist of five primary activities and four support activities (see Figure 3.4). The task of the firms is to examine its costs and performance in each value activity and look for improvements. By estimating its competitor's costs and performances and establishing them as benchmarks, it may gauge its relative performance and thus assess whether it has achieved a competitive advantage. In the quest for competitive advantage the enterprise requires to look beyond its own value chain into that of its suppliers, distributors and customers. In this way, it may help its

customers derive more effective use from its products, or to aid suppliers in reducing their costs.



3.3.3. GOALS AND STRATEGIC OBJECTIVES

The next stage in Figure 3.3 is to establish corporate goals for the enterprise based on the knowledge of the selected arenas and what they can be expected to deliver. Keegan (1983) argued that these goals should be expressed qualitatively, for example, to be the most reliable, among the fastest, to dominate, and so on. As is shown in Figure 3.5, goals can then be translated into measurable terms and then compared with the view of what is likely to be achieved without strategic efforts (Keegan, 1983; Mintzberg, 1973). Some term this approach as linear (Chaffee, 1985), others regard it as rational (Peters and Waterman, 1982), with Fredrickson, (1983) applying the term rational comprehensive.

Chaffee (1985) produced three models of strategic management: the first, the "linear" model (formal planning), the second the "adaptive" model a term also used

by Mitchell et al. (1986) which corresponds to the idea of incremental strategic change (Quinn, 1980). The explanations for which vary from satisficing behaviour in the context of organizational politics (Simon, 1957) to that of others who see it as essentially logical. Her (Chaffee, 1985) third model the "interpretative" model was challenged by Weick (1983) who indicated there is the presumption of logic on behalf of managers meeting a complex situation. He argued that they bring their own cognitive maps which provide a view of the world that helps them interpret and respond to the changes that the organization faces.

Paul et al. (1978) asserted that to avoid ambiguity in the communication of strategic objectives, quantification has usually been relied upon. Thus management's vision of the future has tended to be summed up in purely financial terms. They argue that the strategic gap has often been quantified in this way and since the forecast of sales and profits from existing products tends toward the pessimistic, many companies that engage in strategic planning have been lured into diversification. Those authors cite this based upon their consulting experience but give no figures. However they seem to be lending support for the argument that ambiguity is something that should be tolerated, perhaps harnessed positively, just as it has been in the objective setting processes of Japanese companies. For example, top management in some *kaisha* claim to deliberately keep goals vague for the express purpose of stimulating creative thought (Person, 1989; Yoshino, 1990).

What the apparent disputes in the literature have in common is that they underline the complexity of human behaviour that is usually compounded further when expressed in the context of an organization. Harnessing human behaviour in a positive way is one of the greatest challenges of management. As Quinn (1984) asserted, effective top managers do not announce goals to the organization as precise packages. They do not because they recognize that to do so will centralize the organization in an undesirable way, for to issue them is to state what is

important and to foreclose thought and consideration on other alternatives. Good managers want to benefit from the genuine participation and dedication of those who have it.



On paper, the model depicted in Figures 3.3, and 3.5 to 3.7 appears entirely rational, but Minkes (1987:59) made the point that rational decision making models make the following assumptions:

- There is no difficulty in agreeing on what facts are
- That an overall policy objective is meaningful
- A precise mutually acceptable definition of the problem exists.

Although there is some logic to this and observations of, say, falling sales may be not be in dispute, the causes may be debatable. Moreover, in most organizations there will be a number of strategic objectives that are in conflict so an overall view may be hard to obtain. For example, a decision to develop the Japanese market will

require much investment over a long time horizon, the costs of which may be burdensome and impair corporate performance in the medium term.

Given that goal and objective setting has been ambitious, a gap between the view and the desired state is likely (Figure 3.5). As Hamel and Prahalad (1989) put it: the new global corporate leaders of today began with ambitions that were out of all proportion to their resources and capabilities. Their obsession with winning at all levels of the organization has been termed "strategic intent." This concept encompasses an active management process and provides consistency to short-term action, while leaving room for reinterpretation as new opportunities emerge. Achieving strategic intent requires enormous creativity concerning means. This creativity comes in the service of a clearly prescribed end. Whereas the traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates an extreme misfit between resources and ambitions. Top management challenges the organization to close the gap by systematically building new advantages. To accomplish, they argued, a strategic intent, a company must carefully manage competitive engagements so that scarce resources are conserved. Aiming to be number one in a business is the essence of strategic intent.

The gap between the two positions of where the company is and where it wants to be is that which the planning process is intended to bridge. Broadly speaking the gap can be plugged organically by implementing two types of strategies (Figure 3.6), product and market (Ansoff, 1965), while taking account of the need to develop and take account of:

- Common thread (Drucker, 1968)
- Strategic windows — the limited time horizon in which opportunities exist (Abell, 1978).

3.3.3.1. Common thread

There has been much debate in the literature as to the value of "sticking to the knitting" as expressed by Peters and Waterman (1982), or synergy — the $2+2=5$ effect — (Ansoff, 1965). Synergy is a benefit derived from the property of relatedness. Yet, in a UK study during the 1970's, it was shown that consistent unrelated product strategies provided greater returns at less risk than companies consistently following single, dominant or related product strategies over the period (Luffman and Reed, 1984), whereas earlier Scott (1973) argued that related constrained conglomerates perform more consistently.

Peters and Waterman (1982) argued that shared values represent the core of the corporate culture, a trait that is at the heart of the Japanese corporate system. Whereas Hofstede et al (1990) analysed ten different organizations on twenty different business units. They concluded that the "one best way" assumption held in Peters and Waterman's (1982) eight maxims were too generalized. As a counter argument they proposed that what is good or bad depends in each case on where one wants the organization to go, and a cultural feature that is an asset for one purpose is, more often than not, a liability in another.

Hofstede et al. empirically showed shared perceptions of daily custom, habit, tradition etc. to be at the core. Their explanation of the difference between theirs and the findings of Peters and Waterman (as well as those of many other US authors) is a fundamental one. Description of organizational cultures in the US based management literature "rarely distinguishes" between the values of founders and "significant leaders" and those of the bulk of people in the organization. The usefulness of the Hofstede approach was to gauge to what extent the views of these "corporate heroes" obtain ownership amongst their constituencies, those being the employees whom they are hoping to motivate. It is particularly relevant in the Japanese context as the views of founders tend to become hallowed (Keegan, 1983).

Other attempts have been made to gauge the usage of strategic planning and attitudes towards its usefulness in steering the business between cultures.

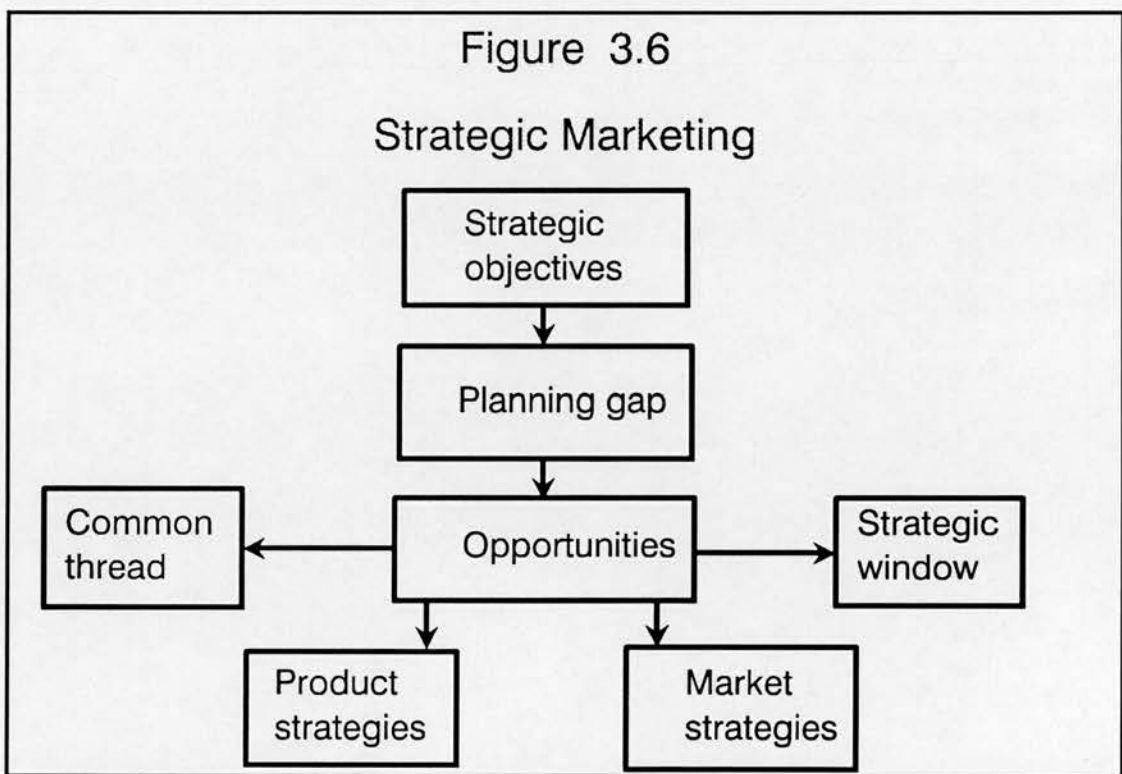
Shrivastava (1985) stressed that the culture of the organization is a critical variable for effective strategic planning. That author argued that managers need to examine the culture of the organization and its potential impact upon strategy. While it may be rather difficult to change the organizational culture, awareness of it can lead to strategies that are consistent with it.

In an influential work, Rumelt (1974) clarified the product/market concept by defining a business unit as one that could be managed separately from the firms other activities. He argued that "related-constrained" conglomerates are more consistent performers than those without the constraint. However Montgomery (1979) removed the pharmaceutical companies from his sample and challenged his results. Later, Rumelt (1982) presented a new seven category system, formed from the original nine category typology, by combining two categories each in the dominant and unrelated diversified groups. He again showed a diversity/performance relationship; related constrained firms being the best performers on a 5 year average return on invested capital measure.

By analyzing performance differences between established firms diversifying into young industries, performance was found to be associated with firm size and financial strength, (this will be shown later to be a characteristic of the Japanese situation), time of entry, and the maturity of the firm's markets (Smith and Cooper, 1988). As an industry evolves, the relative importance of variables appears to change. The authors suggested that when entry into a young industry is being considered, success is more likely the earlier it is made. As we shall see later, some of the companies studied perceive their common thread differently from their Japanese counterparts.

3.3.3.2. Strategic window

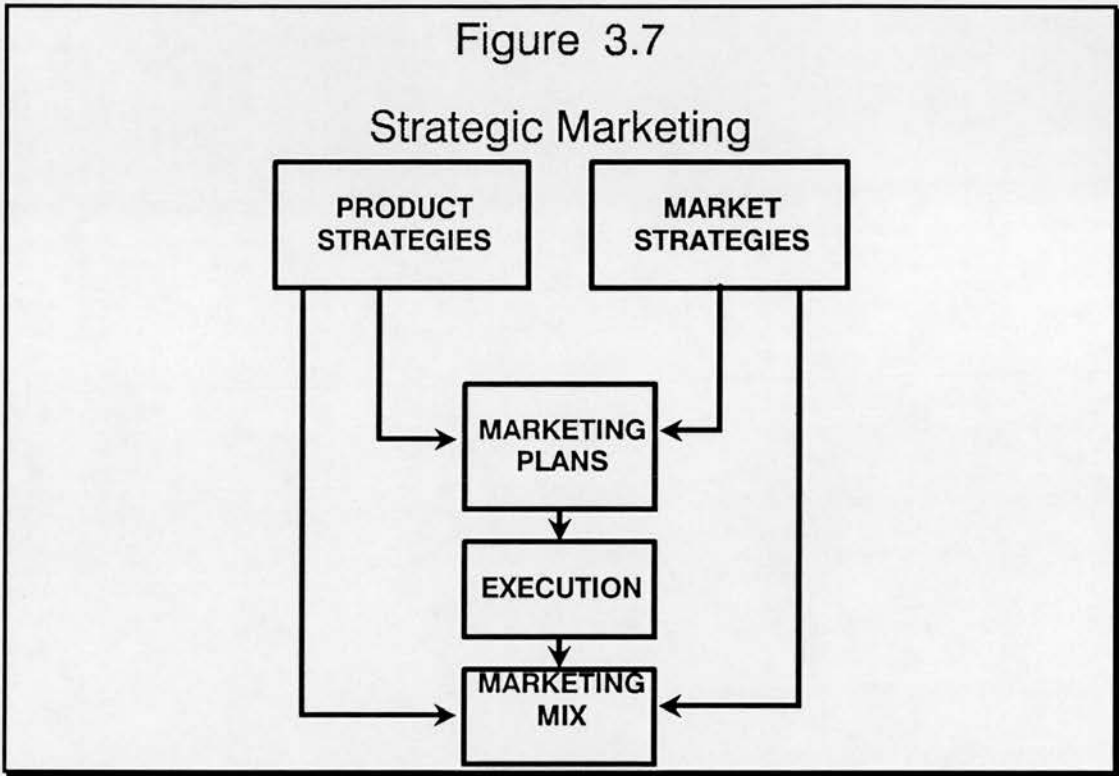
The anticipation of change can be substantially improved if an organizing framework can be used to identify sources and directions of change in a systematic manner. Appropriate responses to change require a clear understanding of the alternative strategic options available to management as a market evolves and change takes place. These changes result in a predictable change in fit between the firm and its markets — leading to defined periods during which a "strategic window" exists and can be exploited (Abell, 1978).



PIMS (Profit Impact of Market Strategies) is one of the main aids that have been developed to enhance the evaluation of strategic alternatives. It was originally developed at General Electric using confidential data on 1000 businesses and then transferred to the Strategic Planning Institute. The most publicised use of the PIMS data consisted of a regression model involving 37 independent variables that predict

80% of the criterion variable — Return on Investment (ROI) (Ansoff, 1965).

PIMS initiated much thought about the true nature of the relationships among those variables involved in strategy (Anderson and Paine, 1975).



3.3.3.3. Implementation

The net outcome of this process is the preparation of operational plans that specify what will happen both in product and market terms, what investments will be made in each of these respects and how responsibility will be delineated for the execution of the plans (Figure 3.7). The output of the process is the marketing mix; a combination of products, pricing and branding strategies, distribution coverage, communications actions, etc. (Borden, 1964). As was mentioned earlier, it is the collective effect of all of these elements of which timing is a critical element that determines the relative success of a company in the marketplace (Reid, 1980). It will be shown later in this thesis that one of the characteristic differences

between Japanese companies and Western companies is that they appear to react very quickly with new products.

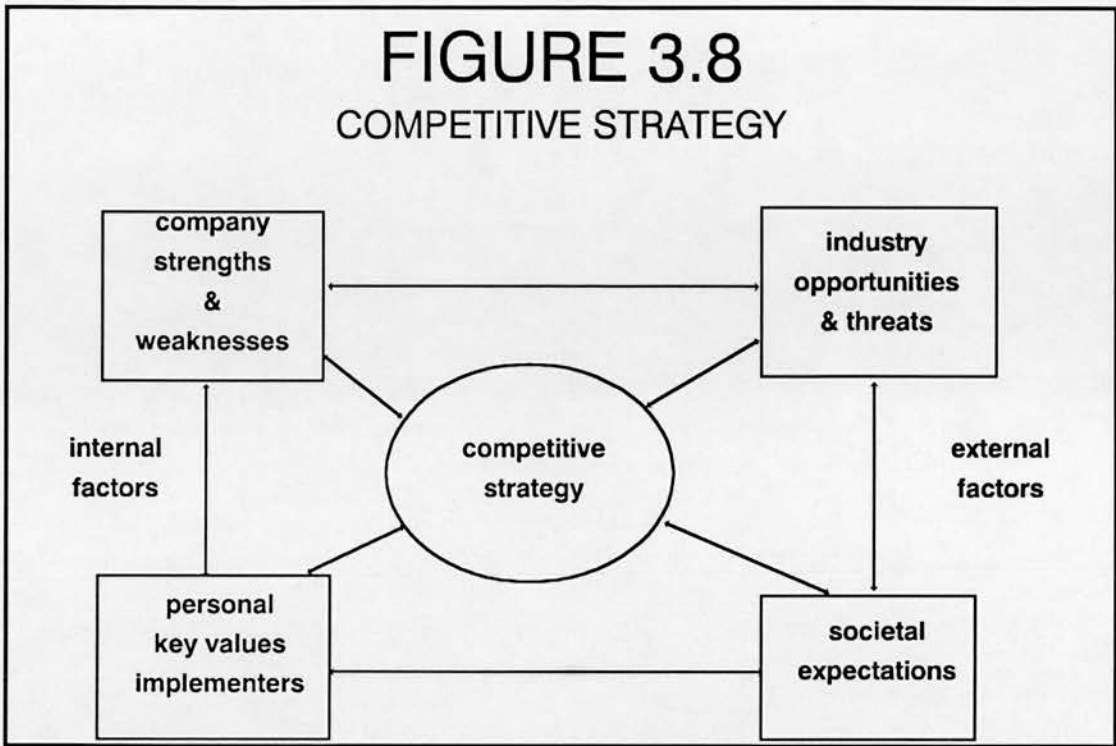
Peters and Waterman (1982) argued that strategy used to mean a good idea "to knock the socks of the competition," whereas now it is synonymous with quantitative breakthrough. They stressed that the process of implementation is crucial. While there are companies that are the envy of their peers with being able to perform detailed effective analysis of situations such as Procter and Gamble. Although they may be good at using the numbers to solve problems, companies are all too frequently paralyzed by analysis which is to say that their plans are insufficiently creative or they fail because insufficient regard is paid to the practicalities of implementation. In the words of TI's Patrick Haggerty ... "those who implement the plans must make the plans" (Peters and Waterman, 1982).

Quinn (1979) argued that a major error is to freeze plans too soon. Design and development he noted needs to be oriented to invention, innovation and change. It is, he argued, necessary to adopt the best currently available technical solutions and to adapt to the customers' most current perceived needs. In this way the process should be designed to offer the quickest possible feedback from the marketplace and technical communities. Later Quinn (1985) argued that big and successful innovative companies tend to behave like many small entrepreneurs. They accept the essential chaos of development. They pay close attention to their users' needs and avoid making detailed marketing or technical plans at an early stage. This prescription is very much like the Japanese model that has been observed and will be reported on later⁷.

⁷ See Chapter 5

3.3.3.4. Conflicting Opinions

Porter's model of competitive strategy shown in Figure 3.8 shares some common ingredients with that shown in Figure 3.3 and Figures 3.5 to 3.7 but is less detailed and the iterative nature of strategy development is less apparent. However amidst all the foregoing writings, different philosophies appear to vie with each other to be seen as most representative of reality. This apparent conflict has been crystallised rather appositely by a debate between Henry Mintzberg and Igor Ansoff. Mintzberg (1990) called into question some of the most fundamental beliefs of strategic management theory by questioning what he refers to as the design school — that is the approach advocated which proposes a simple model that views the process as one of design to achieve an essential fit between external threats and opportunities and internal distinctive competence. In this way he attempts to systematically demolish the essential premises upon which that mode of thinking was built. In particular he focussed on one central theme, he denigrated the idea that thought exists independently of action then argued that strategy formulation exists as a process of conception rather than one of learning. He supports his thesis by questioning the validity of strengths and weakness analysis and cites a work by Stevenson as his primary evidence in which it was found that general agreement regarding strengths and weaknesses did not wholly exist (Stevenson, 1976). As attractive as his superficial logic is (Mintzberg, 1990); he errs on the side of the polemic by attempting to justify that the field of strategic management should be left to the "emerging strategy school," represented primarily by himself.



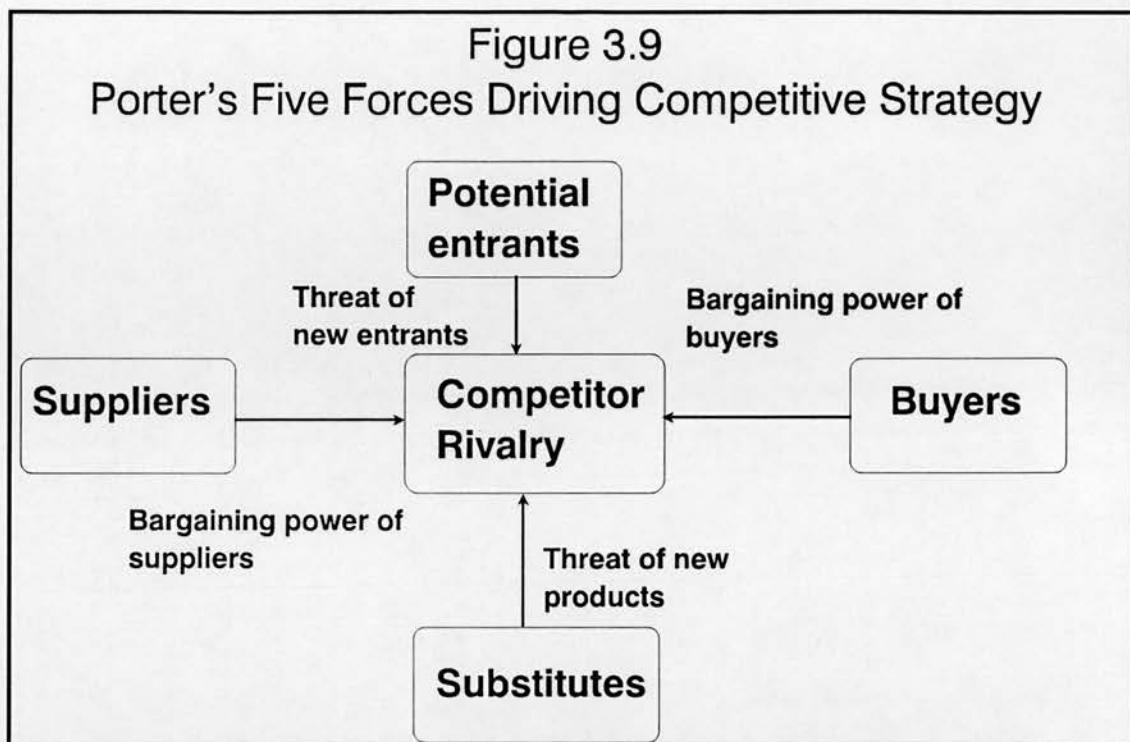
In a response article in the *Strategic Management Journal*, Ansoff (1991) found Mintzberg's analysis deficient in two fundamental areas: methodological soundness and factual veracity. He deemed that Mintzberg's (1990) descriptive assertions were at variance with facts readily available in current strategic management practice even to the extent of criticizing Mintzberg's definition of strategy (Mintzberg, 1990). Ansoff also condemned Mintzberg's failure to distinguish between prescriptive and descriptive statements; and his failure to define the context for his prescriptions. He was especially concerned about Mintzberg's preoccupation with the managers' need to be sure about situations and the inference that they cannot act before they are sure, something that could never be assumed in the Japanese market. The reality is that these disputes of philosophy are more to do with degree than they are about fundamentals and the writers are bound by more issues than divide them.

We will now proceed downstream into the operational zone of the model depicted in Figure 3.7 to consider the execution phase represented by the implementation of marketing strategies.

3.4. MARKETING

"Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others" (Kotler, 1988). This definition is based on notions of: needs, wants, demands, products, utility, value, satisfaction, exchange, transactions, relationships, markets, marketing and marketers. From the marketers' side it involves identification of market opportunities, preparation and planning to exploit the opportunity profitably, followed by effective execution of the plans. It thus brings together many variables which if combined well will determine corporate fortunes. Marketing strategy and planning are thus key to the destiny of the enterprise.

A positive destiny it can be argued can be best assured by ensuring that the enterprise occupies a series of secure intermediate positions. Porter discussed the dominant strategic positions that are available and how they can be achieved. A framework for assessment of the strategic position of an enterprise is provided by his analysis (Porter, 1980; Porter, 1985). He maintained that competitors within an industry jockey for position within a domain dictated by external forces: bargaining power of suppliers and customers, the threat of new entrants, substitute products or services and competitors. The combination of these five factors determines the position of a particular firm inside the industry.



According to Porter (1985) are three potentially successful generic strategic approaches in which a company can succeed in an industry. It can strive for overall cost leadership, pursue differentiation or focus on a market niche. Since industries may offer more than one means of differentiation and several market niches, there are opportunities for numerous firms to be successful in the same industry. Effective implementation of either of these strategies requires a total commitment with appropriate organizational support.

The worst situation that may befall a company Porter asserted is to be "stuck in the middle" by which it develops an indistinctive corporate positioning and the firm cannot or fails to adopt a specific strategy. We shall see later that this turned out to be a key problem with foreign companies in the Japanese marketplace. More generally, such firms experience vulnerability to their long term survival, especially in times of recession. Using Porter's template a firm is able to assess its position

within the industry, whether it is a leader, follower, differentiator, nicher, etc., and its competitive power relative to the other participants. In this way it may assess the potential threats and its available scope for manoeuvre. Adopting a particular position is no guarantee of success. For example a high cost differentiator may become vulnerable during times of recession and as a consequence cost reduction may become its prime strategy.

The tactical aspect of the strategy is to develop and execute the marketing mix — the controllable variables available to the marketer (Borden, 1964). First it is necessary to obtain a clearly defined view of the target consumer by segmenting the market into sub groups with clearly defined needs.

3.4.1. MARKET SEGMENTATION

Segmentation is a method used to refine the marketers view of the market and aid the identification of a target market on which the company will focus a fine tuned marketing strategy. It involves linking observations of consumer characteristics with their buying behaviour. Segmentation is as much *creatively* based as it is analytically derived. It will be shown later that creative segmentation strategies are extremely important in the Japanese context. A lengthy regurgitation of the descriptions of segmentation methods will not be given here as such can be found in any worthwhile text book. However, to develop this argument we will turn to the precepts of segmentation as outlined by Kotler (1988):

- Measurability
- Substantiality
- Accessibility
- Actionability.

3.4.1.1. Measurability

The process of segmentation hinges around that which can be measured.

Segmentations can be based on many different types of measure, for example, demographics, psychographics, benefits, life style, usage behaviour, ACORN (A Classification of Residential Neighbourhoods: a system that is predicated on the belief that like minded value sharing people will flock to the same kind of areas), and many others. No one method is perfect for the marketer's requirements. Efforts are continuously being made to find alternative methods of segmentation that work. The company ACCI which markets ACORN attempted to introduce a method that utilized the names of householders using the logic that Ethels and Myrtles are likely to manifest buying behaviour unlike Clarindas and Geraldines.

Demographic segmentation is probably still the most popular segmentation method merely because of the wide availability of statistical data that give the impression that segmentation measures can be found. For example there are census, earnings, employment statistics and readership leading to social classification terminology such as A, B, C1, C2, etc. Yet does it mean that if heavy users of a particular lipstick brand tend to be clustered in social classes C2 and D and be between the ages of 14 to 17 that the marketer has established a cause-effect relationship or merely one based on association? The latter is the case, although it is also true that a causal relationship may exist but it cannot be proven by the data alone.

The most fundamental of all communications principles is to know one's audience. If demographic data are to be used intelligently they may provide guidance on media selection but would provide little guidance to a copywriter or creative director in constructing a commercial with appropriate "tone of voice" because females answering to the above demographic description may represent many different values, interests and orientations. Therefore this demographic data

requires to be supplemented by other data types such as psychographic information to provide a more rounded comprehensive understanding of the consumer (Roberts and Wortzel, 1979; Bearden et al., 1978; Schipchandler, 1979; Teel et al., 1979).

This question of shared values is an important consideration in identifying segments which it is anticipated will react with some degree of homogeneity to a modified marketing mix. Certainly it was the experience of wine marketers during the 1980s — a time when table wine retained some upper class cachet — that certain working class areas, for example Brixton, had concentrations of heavy users of an "upper class product." It was argued by ACCI that ACORN type G, into which Brixton was classified, was a more composite segmentation measure in that people that shared similar thinking values are more likely to precipitate towards similar areas and this sharing of values transcends a working class demographic profile⁸.

3.4.1.2. Substantiality

The principle of marketing focus is predicated on the enterprise considering it to be worthwhile to adapt or originate a marketing mix for an identified target market. Such departures from standard formulae add to costs significantly. For example, shorter production runs result perhaps involving labor intensive methods (automation being ruled out until viability has been demonstrated and some degree of market position having been won). Production is however the most obvious addition to costs but the increase to marketing costs may be immense. Advertising and promotion costs can account for as much as 60% of sales during the launch of a new consumer brand (Buzzel et al., 1972). It is necessary therefore that companies commit to heavy expenditures until their brands are shouldered above threshold. So, even if the aggregated market is huge, as is the case in Japan, it may also be

⁸ Conversations with Richard Webber, the "inventor" of ACORN

true that it is also fragmented into segments that are uneconomic to serve.

The point is that *creative* judgments are required at every level to benefit from the use of the segmentation approach; the data alone will not solve the problem. For example, if a company's response to a segmentation opportunity is to develop a new product, the company will encounter difficulty translating consumer knowledge into a product concept and successfully nurturing its transition through the product development stage to market test and full commercialization, as the attrition rate of new product ideas among commercialized products demonstrated by Booz Allen and Hamilton testifies (1982). No one can guarantee that the same consumers will still be eager to buy and consume the product when it eventually reaches the market. No one can vouch that the consumer will respond to the advertising and other communications urging them to do so. *Creative* and business judgments are necessary at every stage of the process and the risks are high.

So, when many commentators claimed there was something new about PepsiCo creating the "Pepsi Generation" one is bound to consider whether it is any more true than there was a segment of consumers readily awaiting Procter and Gamble to perfume their washing powders in the early 1950s, or awaiting Colgate Palmolive to insert spearmint into its toothpaste; after consideration one is bound to conclude no. What is likely is that there exists research data of various types, all of which contribute to an understanding of a complex consumer problem. Most importantly there is interpretation of that data, followed by the execution of a strategy to address the opportunity that it is *believed* has been identified. So while markets may be segmented into "fragrance loving detergent" or "spearmint non appreciative" consumers, the categories could not exist without there first being an effort by the marketers to offer the product and build an image for their brands.

The "Pepsi Generation" segmentation resulted, as do so many opportunities, as a backlash to a competitor's success. Coke had, via its world-wide advertising

McCann Erickson, for some 20 years been running life style advertising. These commercials were purposefully designed to maximize broad consumer appeal. They depicted all ages, sexes, classes and ethnic groups, engaged in activities in which consumption of Coke could be considered relevant. For many years it was a successful formula. The opportunity to which PepsiCo made its *creative* response was the lack of proprietary appeal that Coke offered to particular age groups. They seized upon the youth market which was buying the product in spite of its advertising and focused upon that segment as they are heavy consumers of soft drinks and have a tendency, according to Enrico and Kornbluth (1986), to prefer what their parents do not.

In conjunction with its advertising agency BBDO, PepsiCo startled the marketing and wider world by paying Michael Jackson US\$5 million in 1983 to appear in two commercials, and later US\$13 million to shoot one in which the temperamental star would only allow his face to be shown for six seconds. Such decisions require faith and *creative* decision making ability to be coupled with other circumstantial factors; Roger Enrico, President of PepsiCo was in a honeymoon period when he allowed the first major investment in Jackson to be made. Subsequently it (PepsiCo) has outshone Coca Cola in advertising terms. In 1991 consumer research in conducted in the United States verified that Pepsi had been winning the advertising battle for some time⁹. This contrasts with Japan where Coca Cola dominates the vending machine distribution channel and thus prevents Pepsi from gaining a significant position.

⁹ Source: BBDO—Pepsi's advertising agency.

3.4.1.3. Accessibility

The principle of segmentation is hinged on the principle that the enterprise concentrates on certain target markets and by implication ignores others. However in practice it is very difficult to address one target audience to the exclusion of others. Television audiences are notoriously volatile in so far as they change from one slot to the next. Moreover particular spots such as the news may attract many different types of consumer. Hence communications costs are high because the creative message may be tailored to the few, but the media costs incurred buy access to the many! Chapter 2 detailed that the fragmented nature of Japanese media aids segmentation strategies in that market.

3.4.1.4. Actionability

With all the different types of research data — attitude and opinion, psychographic, lifestyle, benefits sought, and so on, many opportunities exist to segment markets. However while it may be true at the conceptual level, practical exploitation of such opportunities may yet evade the marketer. For example should Cartier or Giorgio Armani identify that their customers possess a common trait of acquisitiveness it will be of only limited use unless effective strategies could be formulated to utilize the knowledge. At the end of the day it is necessary to use the data to construct a marketing mix. That means a product strategy utilizing acquisitiveness, harnessing that knowledge to formulate distribution policy and determine — outlets, geographical concentration, types of shopping area and so on. Some implications for pricing may be rather more obvious with high skimming pricing strategies to underline product desirability. However when it comes to communications strategies the property of acquisitiveness may be utilized in creative terms but be impossible to use for media selection.

3.4.2. THE MARKETING MIX

After considering the strategic perspective, the tactical aspects of the strategies ought to be considered. The marketing mix represents the tactical execution of the strategy.

<u>Product</u>	<u>Price</u>	<u>Promotion</u>	<u>Place</u>	<u>Probe</u>
Quality	List price	Advertising	Channels	Marketing
Features	Discounts	Selling	Coverage	research
Options	Allowances	Sales prom.	Location	Intelligence
Style	Settlement	Publicity	Inventory	Scanning data
Brand name	Credit terms		Transport	
Packaging				
Sizes				
Services				
Warranties				
Returns				

The marketing mix, originally conceptualised as four variables: Product, Price, Promotion and Place (Borden, 1964), and subsequently extended to include Probe (market intelligence) (Keegan, 1974) recognizes that results are derived from a combination of variables over which the marketer has control. Over the years it has been suggested that packaging should be considered as a separate "P" and latterly that "P" for people should be included in the mix. What is crucial, however, is that selection of and concentration on a particular combination determines a *collective effect*. In essence the marketing mix concept is about maximizing consumer utility by providing a finely honed offer that embodies the right product at the right price

in the right place at the right time, presented in the right way. There are two guiding rules in applying the marketing mix: consistency and blend (Borden, 1964).

Each of the variables is required to be consistent, for example if the product is up market then this quality need be reflected in the choice of distribution channel and communications support. If the ingredients of the mix are blended in a unique way, then it presents a key opportunity to differentiate a commodity product or one that incorporates no proprietary technology. These rules imply that firms should not waste effort and resources on a variable in the mix that is not consistent with its strategy. It may be advantageous for enterprises to explore the marketing mix of their products and reassess the effectiveness and efficiency of the variables. In this way inconsistencies with the overall strategy may be removed and ways examined to improve the effectiveness of each variable and its contribution to the mix because it is the overall collective effect of the mix that ultimately determines market share position (Reid, 1980). The implication is that in extremely competitive market situations, such as we shall see exists in Japan, great efforts are required to differentiate the offer by loading the marketing mix accordingly.

Marketing mix strategy is usually depicted in the context of the product life cycle (PLC) theory. The theory classifies the life of a product into several phases: introduction, growth, maturity, decline and the emphasis of marketing mix variables changes according to PLC phase (Kotler, 1988). While the PLC theory has been remarkably durable, there are flaws in the analogy and in the application of the concept. It has, however, been argued that the product life cycle is a useful concept with a part to play in forecasting, pricing, advertising, and product planning (Smallwood, 1973). Others contend that products gain second lives — for example motor bikes as a result of the Japanese shake up, or re incarnation due to brilliant promotion. While many writers have failed to distinguish between product class and product form (cigarettes versus filtered cigarettes) or brand, it does not matter.

The PLC concept has little validity as evidenced by brands that buck the product class trend and vice versa and application of the generalized strategies to meet the stages are likely to cause more confusion than they will help (Dahlia and Yuspeh, 1976). However specific exceptions do not invalidate a theory that at best can only be approximate.

To build an effective marketing mix requires an understanding of consumers and how they differ. Identifying useful differences is the process of market segmentation.

3.4.2.1. Product

If a product or service fails to perform against consumers' expectations repeat purchase will be unlikely. Furthermore, negative word of mouth communications will be triggered resulting in a reduction of trial (Engel et al., 1990). In some instances consumers will trade off one dimension against another such as paying more for superior quality (Bettman, 1979). Product differentiation is considered to be present when essentially similar products are made to appeal to different target groups or be deemed more suitable for certain occasions. This is achieved by developing differential perceptions by consumers by adding value by combining variations of product options, branding, packaging, style, sizes and so on. For example, water and sugar are commodities. With the addition of brominated vegetable oils and caffeine, colas are formed. Market and endow them with emotional values as Coke and Pepsi and they become brands. Branding is a key form of differentiation; it identifies commodities by endowing them with distinct personalities. A brand image takes considerable time to develop and represents the investment element of many years of communications expenditure. In the words of Sir Hector Laing of United Biscuits:

Buildings age and become dilapidated, machines wear out, cars rust, but what lives on are brands (Economist, 1988).

It is a relatively recent development for companies to include a value on its brands in the balance sheet. RHM was among the first to do this by rating its brand portfolio at £678 million in its 1987 accounts. Not only do manufacturers brand products, they also brand the experience of purchasing them. For example BMW checks that the dealers that supply and service the product are clean; it sells expensive leather jackets and briefcases to expensive looking drivers giving users the distinct feeling they have joined an elite (BMW has been particularly successful in Japan). Thus brand and product identity are of crucial importance in relation to consumers' wants and needs providing they accord with their perceptions of value, especially at premium prices.

Attempting to be all things to all people by attempting to offer a universal product of indeterminate identity to a group of consumers only vaguely defined result in being what was referred to earlier as "stuck in the middle" (Porter, 1980). To avoid this situation Porter argues that it is necessary to:

- Increase differentiation or cost focus
- Narrow the scope in order to receive a better hearing.

To operationalize this, firms need to understand the segmentation concept which is often about identifying subtle differences between consumer groups and reflecting these differences with product propositions and positionings. Enterprises that successfully build brands achieve longer term protection in the marketplace. Given the right sort of communications and development support, brand names become indelibly locked into the consumers' mind and perceptions become linked with positive properties in the way that Rolls Royce is linked with quality. In this way an enterprise may enhance its competitiveness by adding values which consumers actually prize. Moreover, firms may leverage their established brands by exploiting their brand concepts in other product categories.

3.4.2.2. Price

No matter how good a product is there will always be some consumers for whom there is a price limit. Others may be able to afford the higher price but prefer to allocate their discretionary spending power elsewhere. On the other hand, even though a product is available at a lower price the buyer may not accept lower standards of product performance and willingly pay a premium; a characteristic we see often in the Japanese context. So, pricing a product is not merely the process of setting the price that the consumer will pay but establishing a strategy that will satisfy consumers and trade alike, yet yield satisfactory returns to the originator.

Marketing can be viewed as shifting the battleground away from price to other factors by establishing qualitative values in the eyes of consumers, and price is seen as something to be balanced against these factors: for example perceived value versus price premium. Price can be altered without alienating consumers providing essential changes have been accounted for in the other marketing mix variables. For example a price hike may be supported by changes and/or improvements to: promotion, product and distribution and so enhance value perceptions with the consumer.

A variety of different types of pricing policy could be adopted to suit diverse circumstances: destroyer, penetration, promotional, skimming, etc. To be a destroyer relies on the enterprise having a powerful market position to defend and the resources to drive weaker competitors out of the business. Penetration involves pricing keenly to deter new entrants while taking advantage of the high price elasticity of demand in the market. Promotional deals are frequently offered to induce consumers to try a new product. Whereas skimming is often used where the market is limited in scale, not responsive to price offers and/or a conservative management is attempting to claw back cash quickly to offset any development expenses that may have been incurred (Kotler, 1988).

Price as a variable in the marketing mix is especially important in the face of

competition. It is also the interface where the consumer decides what represents value to him.

3.4.2.3. Communications

In the context of marketing mix discussions this function is referred to as Promotion but only to round out the use of the letter "P." Communications is a much broader term and is now used more frequently to include: advertising, personal selling, sales promotions, publicity. Advertising is paid for identifiable communication. It is clearly dedicated to persuading the consumer to buy or promote attitude change and the consumer knows it. Advertising communications are de-coded by the consumer in a way that reflects a lifetime of experience with advertising and is to some degree culture specific¹⁰. We will see later that this is a salient issue for foreign marketers in Japan.

Advertising does offer the advantage of enabling the communicator the power to exaggerate and repeat the message. It is extremely expensive in terms of overall cost magnitude but in terms of the cost per viewer or reader it is low and in this way justifies the high amount of expenditure allocated to it. However ensuring that the vast figures spent on advertising do justice is a skilled, professional process. As Nestle, a company that has been directly communicating with consumers since 1866, put it:

¹⁰ Unpublished research by this author on whisky advertising demonstrated a wide variety of interpretations across ethnic groups

Advertising is our principal voice to the consumer and probably the most powerful brand builder at our disposal. Therefore, since budgets are always limited, it behooves us to use it well. Results have proven that good, intelligent advertising works many times harder than mediocre advertising.

Nestle Advertising Manual

Personal selling involves two-way communications and enables the message to be adapted as the interaction continues. Consumers know that they are being sold to and treat the information received accordingly. However where technical matters are under consideration the perceived technical expertness of the salesperson can overcome this time of resistance and in the eyes of the customer he can translate into a technical consultant whose advice is valued (Anonymous, 1978; Engel et al., 1990).

Publicity refers to non paid communications such as the reproduction of press releases and other "non media generated" editorial. Event management and press conferences are the key activities involved. Information that is transmitted to consumers through editorial can have high source credibility (Engel et al., 1990). The disadvantage is that it can only be done once. However, such communications devices can promote positive word of mouth and like exchanges have the highest source credibility of all and may promote the success of a brand or equally hasten its demise.

3.4.2.4. Place

This element refers to the way the company ensures the product reaches the consumer. It deals with distribution policy. In some ways it represents the least controllable element since it usually relies heavily on intermediaries. It involves decisions on direct and indirect channels of distribution; geographical coverage; inventory allocation by location; inventory levels and investment; physical transportation. Channels of distribution refers to the system of marketing institutions that aid the transfer of title from producer to consumer (Kotler, 1988), regarded as a complex issue by those first attempting to develop a Japanese business.

Decisions on the use of distribution channels affect other aspects of the marketing operation and usually imply long term associations. In fixing arrangements consideration require to be given to the types of intermediaries used and the number of stages in the chain; the number and types of intermediary; the tasks and responsibilities to be carried out by the marketing organization and by the members forming the distribution chain. It is thus desirable that enterprises reassess channels on a continuous basis and make adjustments when opportunities permit. In doing so, trade discounts may also be kept under review alongside the standard of service which such discounts buy from distributors.

3.4.2.5. Probe

The fifth P represents probe or scanning, i.e., to procure market intelligence. Scanning is information acquisition of which there are two modes: surveillance and search. The former is about acquiring information by general viewing, it is not especially focused but it implies a dedication to the acquisition of information, whereas the second is about monitoring or giving focused attention to a particular issue or topic area (Keegan, 1974). Search is a relatively limited and informal seeking out of specific information and may involve structured research.

Apparently the vast bulk of strategic information results from surveillance (see Figures 3.10 and 3.11).

FIGURE 3.10 -- SCANNING MODES

Modes of Coverage

Surveillance Orientation

Viewing	General exposure to external information where the viewer has no specific purpose in mind other than exploration
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Monitoring	Focused attention, not involving active search, to a clearly defined area or type of external information
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Search orientation

Investigation	A relatively limited and informal seeking out of specific information
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Research	A formally organized effort to acquire specific information.
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Source: (Keegan, 1980)

FIGURE 3.11 -- IMPORTANCE OF SCANNING MODES
Percentage of strategically useful information acquired

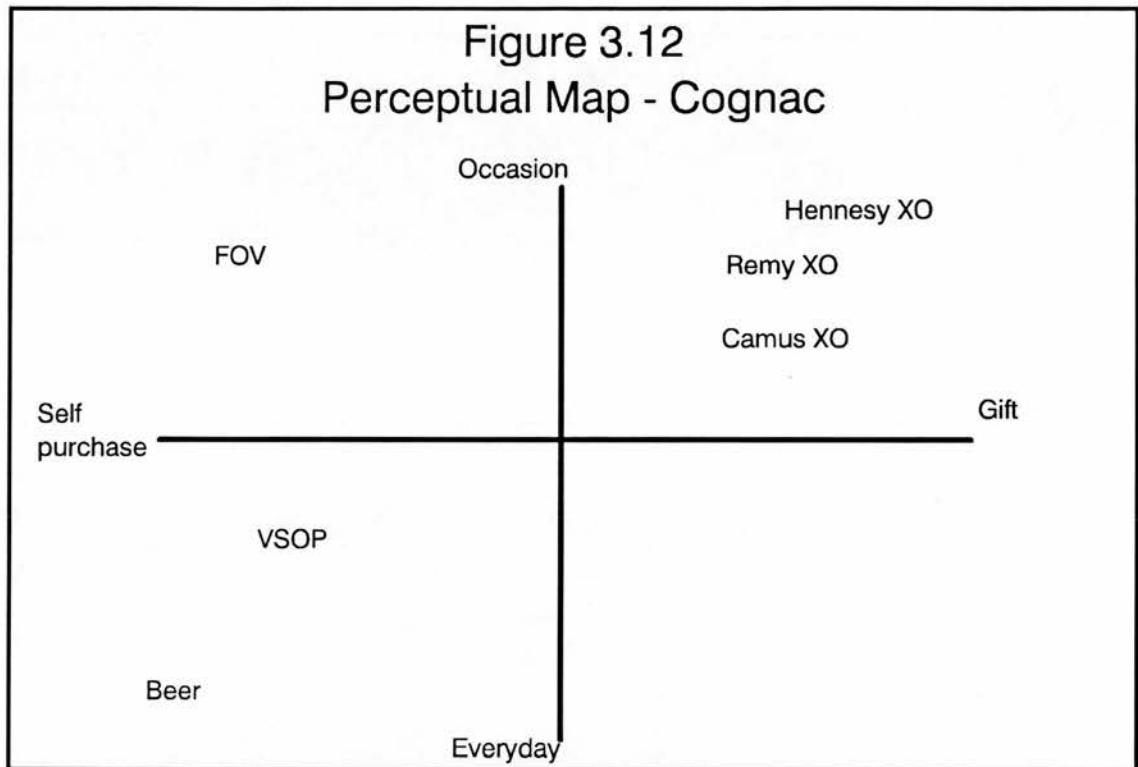
		Overall Sample	73
Surveillance	Viewing	13	27
	Monitoring	60	
Search	Investigation	23	24
	Research	24	
Total			100
Source: (Keegan, 1980)			

Keegan (1983) argued that Japanese marketers are prepared to make decisions based upon their subjective judgement because they are active scanners and as we saw earlier perception and judgement goes hand in hand.

3.4.3. POSITIONING

Positioning is an attempt by the marketer to influence the mind of the prospect in some way that will be beneficial to the brand (Ries and Trout, 1986). By identifying some key dimensions or qualities that the consumer deems important, the marketer can attempt to ensure that the product performs well against them and then communicate the merits of using his brand in a particular light. These relevant dimensions may be functional or emotional. Brand positions will result without any purposeful intent by the marketer; therefore it is crucial that attempts are made to steer the brand into a positive zone. These zones can be plotted using research techniques such as multidimensional scaling (Hair et al., 1987) and interpreted in such a way that the dimensions of the problem are reduced to key issues. In this way cognac brands could be separated into dimensions of gifts and self purchase,

everyday or special occasion and an assault may be made to develop a suitable position in the minds of consumers (see illustrative example in Figure 3.12).



3.5. COMPETITIVE ADVANTAGE OF NATIONS

The purpose and effect of the considered application of much of the foregoing is to lead to competitive advantage. This is a quality which many Japanese companies have in abundance and renders it difficult for foreign companies to compete in the Japanese market. For this reason the framework proposed by Porter (1990) was selected as a basis for comparing the strategies and approaches of the sample companies.

Porter proposed that one of the key determinants of the success of national economies is the ferocity of competition within their home markets. Japan, and what was West Germany are, he argued, both extremely competitive markets. Japanese companies, in particular, compete ferociously at home and their ability to

compete world-wide is determined by this preparation. His analysis provides a useful framework for assessing the basis on which companies achieve competitive advantage. He contended that successful companies took steps to make their home nation an even more favourable environment in which to operate and amplified their home based advantages while offsetting home-based disadvantages. Porter (1990:578-584) provided a checklist that has been adapted for use in this study as follows:

- Competitive advantage grows out of improvements, innovation and change
- Competitive advantage involves the whole value chain
- Competitive advantage is sustained only through relentless improvements
- Sustaining advantage demands that its sources be upgraded
- Sustaining advantage ultimately requires a global approach to strategy.
- Furthermore he asserted that companies should actively seek out pressures and challenges rather than try to avoid them. In doing so he proposed that companies ought to:
 - Sell to the most sophisticated, demanding buyers and channels
 - Seek out buyers with the most difficult needs
 - Establish norms of exceeding the toughest regulatory hurdles or product standards
 - Source from the most advanced international and home based suppliers
 - Treat employees as permanent
 - Establish outstanding competitors as motivators.

This framework will be used in the analysis of the foreign companies' responses that appears in Chapter 6. The use of such a framework can offer great utility because, as Porter (1991) illustrated, it helps identify the relevant variables and the questions that the user must answer to develop conclusions. Frameworks, he noted, aid the thinking through of the problem by offering an understanding of the firm and its environment and defining and selecting among the strategic alternatives.

3.6. SUMMARY AND IMPLICATIONS

Attempting to cover and draw together the literature on strategic management and marketing and place it in an international context has been a formidable task especially since it is equivocal on many issues, a lack of cohesion summed up by the recent debate between Mintzberg (1990) and Ansoff (1991). The strategy theory is complex and multidimensional, a complex subject which, too often, too many authors have attempted to over simplify. In the words of Hamel and Prahalad (1989:71): "It is not very comforting to think that the essence of Western strategic thought can be reduced to eight rules for excellence, seven S's, five competitive forces, four product life-cycle stages, three generic strategies, and innumerable two-by-two matrices."

Much of what has been achieved by this literature review has been to provide guidance in two areas: process of research and focus on its content. It was learned from previous research by the author that direct questions often produce low quality, partially considered responses, for example a stated commitment to plans and corporate policies may be a varying phenomenon subject to the pressures of the moment¹¹. As a consequence, the literature survey has influenced the choice of research methodology in a qualitative direction to maximize insight into the overall issue of how foreign MNCs pursue the development of competitive advantage in Japan.

The distillation of the previous pages raises some further issues for the research:

- How is Japanese strategic behaviour characterized and how do foreign MNCs respond?
- Is there an absence of incentive amongst Foreign MNCs in the Japanese market to plan for the longer term?
- Is segmentation a cornerstone of success in the Japanese market?

¹¹ Appendix III

- Is segmentation strategy applied at a strategic level?
- How have foreign MNCs in Japan developed their market positions?
- Is it the view of foreign MNCs that Japanese companies are strategically superior?
- Does the theory of late entry provide any information on Japanese market behaviour?
- Is common thread perceived differently by Japanese companies?
- Is the principle of consensus a key to success?
- What light does the process model of internationalization shed?

To probe the above issues, in Chapter 5 we will appraise the responses by the foreign MNCs chosen for this research to the obstacles and opportunities confronted by them, as outlined in Chapter 2. Certain concepts and frameworks identified in reviewing the literature on global marketing strategy will be revisited and used in Chapter 6 to appraise the sample companies (Quelch and Hoff, 1986; Porter, 1990). In Chapter 7 implications for marketing strategies based on those adopted by the successful MNCs in the sample will be presented, but first in Chapter 4 we go on to examine the methodological implications of performing this study.

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CHAPTER 4— METHODOLOGY

4.1. INTRODUCTION

The topic of effective marketing strategies for foreign companies in Japan involves the behaviour of enterprises and their constituent organizations. In performing any such investigation there are several different approaches that could be adopted, however the validity and cost of applying them varies. The available selection of methodology is ample; it involves both quantitative and qualitative approaches both longitudinal and cross sectional and includes:

- Classical approach
- Quantification
- Qualitative approaches
- Grounded theory.

These approaches will be reviewed in the light of findings in the literature but firstly the selected methodology will be supported by sections that cover:

- Survey and selection of interviewees
- Learning from some of the author's previous research.

4.2. SURVEY AND SELECTION OF INTERVIEWEES

As mentioned in Chapter 1, face to face interviewing was relied on as the primary method of data collection because of the complexity and multifacetedness of the topic. Firstly attempts were made to identify successful foreign consumer goods' companies in Japan, but while some documentation existed in the economic and business press, this only provided a starting point. Expert opinion was relied on: consultants such as McKinsey and Boston Consulting Group, major international advertising agencies with offices in Japan such as BBDO and McCann

Erickson, and other MNCs were contacted that had Japanese operations and with which the author has a relationship: Asatsu, Business International, Johnson and Johnson and Unilever. Besides inviting these companies to participate, I asked them to identify foreign companies known to them that they considered to be successful in the Japanese market. In this way the first wave of target companies was identified. This wave of target companies was contacted by telephone in Japan and invited to participate in the study. In most cases target companies sought verifications via mail or fax that this was a genuine research project. Mention that Nippon Lever and Johnson and Johnson were participating helped elicit further cooperation.

Subsequently interviews were conducted; and at the end of each interview, interviewees were asked to suggest other foreign companies that to their knowledge were achieving success in Japan. The bulk of the data was collected over a seven month period during the latter part of 1990 although follow up by telephone and fax continued through 1991-92. As the interviewing programme proceeded it became clear from the suggestions received and the way they duplicated those already interviewed or that were on the schedule for interview that many of the major success stories were reflected¹.

As with all such studies the degree to which a sample is limited is a function of cost, time and other available resources, this problem is particularly acute in this case since the cost of travel and accommodation in Japan is legendary. However for such a qualitative study, the sample provided a rich source of experience and wisdom to tap: the sample included not only senior representatives of successful MNCs, but to give a broader perspective to the data a quota of distributors, consultants, advertising agents and other facilitators several of which were locally owned. The interviewees are listed in Appendix I. The classification of the

¹ A thumbnail sketch of each of the companies interviewed is provided in Appendix I

participating companies follows:

Table 4.1 - Profile of companies interviewed

Company	Business	Ownership	Entry method	Est. Japan
Amway	Home care Personal care	USA	FDI	1980
ASATSU	Advertising agency	Japan	Local	—
ASATSU/ BBDO	Advertising agency	USA/Japan	JV	1990
ASI	Market Research	UK	FDI	1965
Avon Products	Cosmetics, personal care		FDI	1973
Bristol Myers	Pharmaceuticals	USA/JAPAN	FDI	1965
Bristol Myers Squibb Co	Consumer Products	USA	JV	1965
Business Intl	Consulting/ research	UK	FDI	1980
Chuo Bussan Co	Consumer products distribution	Japan	Local	—
Coca Cola (Japan) Co Ltd	Beverage & soft drinks	USA	FDI	1958
Cosmo PR	Public relations	USA	FDI	—
Dai-ichi Kikaku	Advertising agency	Japan	Local	—
Eastman Kodak (Japan) Ltd	Photographic Pharmaceuticals Software, Health sciences, Imaging	USA	FDI	1963
Nestle KK Japan	Foods Beverage Pet foods	Swiss	FDI	1913
Gillette (Japan)	Personal care	USA	FDI	—
ICI (Japan)	Chemicals	UK	FDI	1920
Infoplan	Mktg. research	USA	FDI	1960

Johnson & Johnson Japan	Personal care, Infection control Diagnostics Wound closure	USA	FDI	1961
Kennedy Intl	Direct marketing	USA	FDI	1985
Kohler Japan KK	Bathroom/ plumbing	USA	FDI	1986
Levi Strauss KK	Jeans, Clothing	USA	FDI	1971
Market Makers	Consultants	USA	FDI	1987
Master Foods	Foods	USA	FDI	—
McCann Erickson Hakuhodo Inc.	Advertising agency	Japan/ USA	JV	1970
McDonald's Co (Japan) Ltd	Restaurants	Japan/ USA	JV	1971
McKinsey	Consultants	USA	FDI	—
Nippon Lever	Consumer products	Europe	FDI	1963
Philip Morris KK	Consumer products	USA	FDI	1970
Procter & Gamble Far East Ltd	Consumer products	USA	FDI	1973
Reynolds/ Tobacco Ltd	Tobacco	Japan/USA	JV	1975
Revlon KK	Cosmetics	USA	FDI	1962
Rolly Doll Inc	Cookies, Retailing, Travel Furniture	Japan/USA	Local	1972
Smith Kline Beecham	Pharmaceuticals Consumer products	UK/USA JAPAN	JV	1968
Boston Consulting Group	Consultants	USA	FDI	—
TAC - Dick Bush	Entrepreneur	USA	FDI	1960
United Airlines	Airline	USA	FDI	1984

4.2.1. LIMITATIONS OF SAMPLE

As with most research of this type, the generalizations that can be made are limited not only by the qualitative base of the sample but also by the nature of the responses and non response to invitations to participate. Most of the *foreigners* were exceedingly helpful and willing to cooperate. However the value of the data they provided is limited by the fact that much of it represented self explanations by these foreign MNC executives of situations and their companies' responses to them. Such explanations may involve post rationalizations and their accuracy may be impaired by the variable time horizons involved. In several instances they had not been directly involved and their understanding was based on the experience of others.

Cooperation from the Japanese side was much more evasive. Difficulties were encountered in arranging interviews with Japanese executives. For example Ito Yokodo, the entrepreneur behind 7-11 Stores, offered several dates and times but was finally unable to make an appointment. Fortunately data on this company was obtained from other sources. Even Kellogg's, also managed by a Japanese and a previous employer of this author, refused to participate.

As the first wave of data were interpreted, it became apparent that none of the companies had achieved their success overnight. Consequently further visits were arranged to Japan to contact enterprises that were known to have achieved success relatively quickly. These were, in the main, managed by Japanese executives and again little cooperation was forthcoming.

Consideration was given to assessment of the experience of companies that had failed or made dramatic mistakes. For obvious reasons outright failures cease to exist and are difficult to track, although some names were collected of executives who had left Japan and might have had experience to share. However, none of the companies interviewed represented pure successes, most of them had, in addition to some disastrous failures, encountered their share of mistake making over the years,

and their learning is presented and synthesized in the following chapters.

4.2.2. INTERVIEW APPROACH

Broadly speaking the interviews were conducted according to the topics list in Appendix I. However, it became apparent in the very first interview that to restrict the subject too closely to the predetermined topics' list would be to ignore the wisdom provided by "grounded theory" and to exclude potentially valuable data from that collected.

All interviews were taped and in order to make interviewees comfortable with the recording process they were assured that nothing would be published and attributed to them directly without securing their prior permission. In some cases this was a matter of concern, but in most cases it was not. During several interviews, company documents were provided for subsequent analysis. Interviews lasted on average about two hours. The tape recordings were transcribed by the author; and in so doing, the contents of the interviews were reviewed several times. In this way, not only was the memory refreshed, but in depth contextual understanding of the issues was achieved.

4.2.3. ANALYSIS OF THE DATA

Much reading of papers, books, and articles was undertaken and a framework was evolved which relied heavily on the model of marketing strategy and planning depicted in Figures 3.3 and 3.5 to 3.7 in Chapter 3. This framework involves:

- Japanese consumer behaviour
- Market opportunities and obstacle assessment
- Company responses
- Standardization versus adaptation
- Implication of marketing strategies in Japan.

Each of the transcripts was coded according to the framework and "cut" into a

word processed data base. In this way, anything germane to any section in the data base could be readily reviewed. Logic, continuity and cohesiveness were maintained in order to bring the diverse elements of data together into a composite whole.

In the previous chapter in which the focal theoretical boundaries of this subject were outlined, it was demonstrated that there was a wide degree of debate on many aspects of strategic management theory, the theory and empirical findings sometimes being divergent. Questions emerged about the content of this research and the process by which this study was to be conducted. It also highlighted the difficulty of knowing which questions ought to be asked. So, in this chapter, before reviewing the topics of: Classical approach, Quantification, Qualitative approaches; Grounded theory, I shall review some previous research that I conducted (Reid, 1989b), and use this to help establish a basis for the methodology — based on grounded theory — I finally adopted.

4.3. WHAT WAS LEARNED FROM PREVIOUS SIMILAR RESEARCH

Previous research published by this author (Reid, 1989b, Appendix IV) and others influenced both my expectations of the research findings from this current study and the selection of the research methodology. This overlapping zone of strategy and marketing is a field in which I have been working for some years, most of it quantitatively based (Reid, 1972; Reid, 1980; Reid, 1981a; Reid, 1981b; Reid, 1982; Reid, 1984; Reid, 1985a; Reid, 1985b; Reid, 1985c; Reid, 1987a; Reid, 1987b; Reid, 1988a; Reid, 1988b; Reid, 1989a; Reid, 1989b; Reid, 1990; Reid, 1991; Reid, 1993; Reid and Hinkley, 1989; Reid and Lee, 1989; O'Rear and Reid, 1990; Reid and Schlegelmilch, 1990; Reid and Fung, 1993).

Quantitative studies tend to be focussed at more abstract levels. They are particularly useful for gauging the overall level of fit to a model but often provide little detailed insight into how shortfalls can be rectified. This raises the question as

to how this research should be conducted. A quantitative approach was rejected because of the danger of making detailed comparisons with models that might represent an arbitrary standard with an ensuing paucity of insight that could be expected.² Instead, it will explore the issues that the interviewees deemed salient.

Although some of the later research I conducted (Reid, 1989b) concentrated primarily on strategic management, the operationalized model that was applied therein was that depicted in Figures 3.3 and 3.5 to 3.7. As was argued earlier, marketing strategies are conceived and implemented in the context of frameworks established by strategic and corporate policy so the relationship between marketing and corporate strategy is of interest. In my previous research comparisons between the model depicted in Figures 3.3 and 3.5 to 3.7 and the actual strategy formulation process highlighted that:

- Plans were often not credible
- Strategic planning is frequently a sterile process
- Professional planners frequently hinder change
- Strategic planning is considered too complex (Reid, 1989b).

If according to Mintzberg (1990) thought does not exist independently of action there would be little point in asking questions and probing the thoughts of executives as these thoughts would have little effect upon their subsequent behaviour. However that does not mean that the views of the "design school" are invalid. For example, one of the problems in conducting research in the field of strategy is exemplified by the Peters and Waterman (1982) study. "Excellent" companies such as HP, IBM, and Digital suffered changes of fortune since publication of "In Pursuit of Excellence". Moreover, according to Business Week (1984) fourteen out of the forty-three companies cited in that book had "lost their

² According to Foucault (1970) the normal distribution would be more appropriately named Gaussian Distribution. It can be arbitrary, it is a prison, a model of reality which is imposed, a contribution to ignorance.

lustre" by November 1984 by breaking many of the so called "commandments" set by Peters and Waterman. On the basis of the measures established for measuring excellence by those authors, many companies performing well in the present would not necessarily continue to be excellent in the future. By some measures, and on the basis of a superficial comparison with the model in Figures 3.3 and 3.5 to 3.7, many of those lacklustre companies would excel in terms of strategic management. However in many cases the planning process favoured by the "design school" can be criticized because it frequently fails to include strategic thinking. Although this is not a call to abandon strategic planning but to stimulate thinking (Porter, 1987) and incorporate it into the process depicted in Figures 3.3 and 3.5 to 3.7.

Clearly, in many of the companies studied, strategic thinking was not rewarded (Reid, 1989b). In many cases senior management regarded the thinkers as irritations. It was argued that the evidence points to the need for the organizational maverick. However such maverick behaviour would be frowned on in the *kaisha*. Yet, if companies want the benefit of a better tomorrow or at least a secure future, then it seems reasonable to argue that more ought to be done to stimulate strategic thinking among all those capable of making such a contribution and ways found which enable it to occur. Therefore since quantitative approaches, as is argued below, have often produced conflicting findings and at best they have generated little in the way of insight; a more in depth approach was favoured for this study.

4.4. CLASSICAL APPROACH

According to Bailey (1987), the classical approach consists of three distinct stages: Stage 1: Takes place at the conceptual level by defining concepts and stating a relationship between them. Stage 2: Attempts to link the conceptual and empirical levels. A means of measuring the concepts empirically has to be devised and hypotheses ought to be formulated to link the empirical measures of two

concepts. Hypotheses at this stage mirror the relationship established at Stage 1 except that they exist at the empirical level. Stage 3: Involves data gathering and analysis to enable hypothesis testing.

4.5. QUANTIFICATION

A great deal of research has been conducted which attempted to analyze and quantify the effect of particular types of strategy. Certainly, the output of this kind of efforts has been somewhat equivocal. For example, the difficulty of attributing the plan to its results was highlighted (Grinyer and Norburn, 1975). Later one of the same authors using multiple regression analysis suggested that market share and barriers to entry are the principal determinants of profit margins but that tightness of control of working capital and aggressive management style also have an important effect (Grinyer et. al, 1988). It was also shown that return on investment is likely to be improved if the scale of entry into the new venture is high (Kitching, 1974). Moreover a favourable relationship between planning and performance was demonstrated (Karger and Malik, 1974). This author (Reid, 1989b) attempted to use multiple regression to relate planning performance to the classification characteristics of companies in a sample of 94 companies but was unable to demonstrate a meaningful pattern.

One of the foremost influences of this type of work was that of Rumelt. This influential work attempted to evaluate the effect of synergy. As was mentioned in Chapter 3, he clarified the product/market concept by defining a business unit as one that could be managed separately from firms' other activities and went on to argue that "related/constrained" conglomerates are more consistent performers than those without the constraint (Rumelt, 1974).

However such findings can be uncomfortably misleading. Montgomery (1979) extended data for 128 (out of 246) of Rumelt's 1974 firms to cover the period

through 1977. She found that market structure variables accounted for some or all of the differences Rumelt observed between diversification strategy and economic performance. She also showed that performance differences appear to be linked to the characteristics of the markets in which they operate (Montgomery, 1979). Subsequently she reclassified Rumelt's (1974) companies with a high degree of reliability and demonstrated the validity of Rumelt's qualitative approach (Montgomery, 1982). In a study of 305 large UK companies by using multiple regression techniques Grant and Jammine (1988) disputed Rumelt's and other US data by showing that diversified firms outperform specialized firms and thus agree with Montgomery (1982) for using a quantitative SIC based index of diversification in preference to the Wrigley/Rumelt strategic categories.

Pitts and Hopkins (1980) utilized the "business count" method to examine how individual businesses in a corporation relate. They did this, as have many others, simply by using SIC codes to identify individual businesses and then counting the total. Such techniques have been unsuccessful in providing evidence of any relationship between corporate diversity and financial performance. Bettis (1982) examined 80 large Fortune 500 US firms for the 1973-77 period. He finds superior economic performance for related business diversification but argues that it can be explained largely due to industry effects; namely the presence of most related diversifiers in high performing industries (Bettis and Hall, 1982).

In one of his later efforts, Rumelt (1982) presented a new seven category system formed from the original nine category typology by combining two categories each in the dominant and unrelated diversified groups. In addition the distinction between constrained diversification and linked diversification was quantified by the introduction of a new related-core ratio. He again showed a diversity/performance relationship; related constrained firms being the best performers on a 5 year average return on invested capital measure. Dominant-vertical and unrelated business firms performed least well (Rumelt, 1982). Rumelt attempted to replicate his earlier

seminal study and demonstrated empirically that the association between diversification and strategy and profitability remains after removing the effects of varying industry profitability. He argued (1982: 368) that 'it is time to consider the diversification strategies of participants as an aspect of industry structure'.

In another attempt to build upon Rumelt's (1974, 1982) typologies, Capon et al. (1988) suggested that there was little evidence of any relationship between corporate diversity, as measured by the business count method and financial performance. Empirical data support that different markets require different skills for success and firms that concentrate in one market area (consumer or industrial) at given levels of diversification, should achieve superior performance. Geringer et al (1989) looked at the performance differences between multinational corporations. As research variables they selected diversification strategies and the degree of internationalization. Among a sample of the 100 largest MNE's from the U.S. and Europe, they found that diversification strategy was significantly linked to MNE performance. In this way they claimed to extend the principles established by Rumelt.

While not wishing to denigrate the foregoing research, one must conclude that it has produced equivocal results and provided limited enlightenment.

4.6. QUALITATIVE APPROACHES

Qualitative research is a term that has been used rather freely to describe a number of different research approaches, for example exploratory research, unstructured research motivation research, depth interviewing, attitude and opinion research. It is diagnostic. It is impressionistic rather than conclusive; it probes rather than counts. It is intrinsically subjective; its findings do not draw on statistical evidence. However, despite its limitations it is able to bring unique insights and aid understanding of marketing situations (Chisnall, 1981).

Qualitative research involves small numbers of carefully selected individuals. It is akin to the last piece of a jigsaw in that it renders the picture to be more clear (Gordon and Longmaid, 1990). Interpretation of phenomena relies on the observer's ability to identify patterns between them. It is akin to spotting the tips of informational icebergs and inferring the scale and significance of that which lies beneath. It therefore calls for sophisticated and sensitive skills (Chisnall, 1981). For example some of the difficulties in making interpretations of manager's views of events in companies' histories and how they were determined were spotlighted (Bogdan and Taylor, 1975). Certainly all research of this type will be limited by what respondents can and wish to remember and reveal — this study is no exception to the rule. However as, Jick (1979) noted, care needs to be taken to cross check views among diverse sources of qualitative data.

4.7. OTHER CONSIDERATIONS

In interpreting processes of organizational change it is necessary to rely on participants and observers. In either case the investigator is hampered by the observer's perceptual and cognitive limitations as well as the problem of the observer not being aware of some key event (Van de Ven and Huber, 1990). Both problems occur whether the observer is the investigator or a participant in the change process. Moreover each approach has unique problems. The investigator as observer faces the problems of influencing the system being observed and of correctly interpreting what was observed (Barley, 1990; Leonard-Barton, 1990). On the other hand, when using participants as "key informants", the investigator faces the problem of identifying the best informants, ensuring that they correctly understand his queries and that they provide truthful answers.

Daft and Lewin (1990) drew attention to the need to reorientate research away from "incremental, footnote on footnote" approaches as the norm for the field.

They argued that although current researches have made solid contributions they do not seem adequate to the task when the subject is multidimensional and complex (Daft and Lewin, 1990). Miner (1984) also suggested that the straitjacket on the field ought to be loosened and its values be refocussed. Furthermore the needs of practitioners are often ignored and there is a premature focus on a limited number of topics (Miner, 1984). Problems involve:

- Longitudinality
- Multifacetedness
- Implementation.

4.7.1. LONGITUDINALITY

As Pettigrew (1990) put it, the problem is to catch a changing reality in flight; and studying long-term processes in their context necessitates a return to foundations as a principal method. Context refers to the outer and inner context of organizations. Outer context refers to the external environment in which the enterprise is sited, whereas inner context refers to the structural, cultural and political environment through which ideas for change progress. The key points to emphasize in analyzing change in a contextualist mode are, firstly, the importance of "embeddedness" (sic), that is studying change in the context of interconnected levels of analysis; secondly the importance of temporal inter-connectedness, locating change in terms of past, present, and future time; thirdly, the need to explore context and action, how context is a product of action and vice versa; and finally the central assumption that causation is at the centre of the process (Pettigrew, 1990). Such issues were well understood by Mintzberg who sought to understand the complex process of strategic change over time and within the confines of the culture of the organization (Mintzberg and Waters, 1983).

4.7.2. MULTIFACETEDNESS

In their classic critique of the economic theory of the firm, March and Simon (1958) cautioned against treating the firm as a "black box". The firm they noted is a complex system of functional and administrative sub units pursuing their separate commitments. They showed that "organizationally dysfunctional learning" is responsible for consequences unanticipated by bureaucracy theories. Time after time plans are subverted by sub systems within the total organizational structure. Strategic decisions are complex. They do not easily allow reduction into common sets of dimensions to arrive at a holistic view. This point was unambiguously made in Chapter 7 "Cognitive limits on rationality" (March and Simon, 1958).

Another problem of conducting research of this nature was adequately illustrated by Mintzberg. He indicated those descriptions of management functions such as planning, organizing and co-ordinating stem from the work of Henry Fayol at the beginning of this century. However, the reality of management behaviour is quite different from that depicted by popular theory. Indeed, managers' descriptions of what they do are likely to be quite different from what can be observed. He maintained that in many ways we are quite ignorant of the realities of management behaviour and attempted to break away from the descriptions introduced by Fayol to a new reality of how managers spend their time (Mintzberg, 1975). Specifically Mintzberg claimed to demolish the idea that managers are systematic planners — a view propounded by much of the literature. His work showed that of the tasks performed by senior management most last for only a few minutes at a time. Moreover he argued that the emphasis being placed upon management information systems as a key to better performance was not supported by observations of how they spend their time, just as according to Burns (1963) managers favour communicating orally and devote around 80% of their time to this activity .

In an earlier work, Mintzberg (1972) stressed that there are difficulties in researching strategy. One must look at the actual emerging pattern of the

enterprise's goals, policies and major programmes to see what its true strategy is. In other words, one would find it difficult to find an a priori statement of strategy which the passage of time shows is actually followed. He also supported the idea of an incremental pattern of strategic development and stressed the need to differentiate between "intended strategies" and "realized" strategies (Mintzberg, 1972). Realized strategy was taken as the observable output of an organization's activity in terms of its positioning over time. As was mentioned in Chapter 3 intended strategy is the strategy which managers espouse (Mintzberg, 1978). In a similar mode of thinking, he (Mintzberg, 1973) highlighted that each sub system in the total organization has its own cognitive limits as well as its process limits. This latter limit applies acutely to management behaviour to the extent that he compared the manager with a juggler who constantly has to make small decisions whether or not he is ready to make them (Mintzberg, 1973). This example is of critical importance since the realities of management behaviour are conditioned by time frames and agendas which are imposed from outside the "would be rational world" which many management writers would like to see.

4.7.3. IMPLEMENTATION

Hirsch et al indicated that while the "formulation" or "strategy" side of business policy has always drawn appropriately from economic theory; they caution that, taken to its logical extreme, economic theory ignores the importance of implementation, implies lack of choice in organization decision making, and makes the organization a non entity (Hirsch et. al, 1990). Michael Porter's (1980) conception of management and the process of placing one's company in a favourable niche is among the most dominant in the fields of business policy and strategy (Porter, 1980). Inspired by Porter's framework, a generation of scholars has resulted which views industrial organization economics as the base discipline for policy research. Similarly transaction cost economics to choices about the internal

structures of organizations have grown to hold a prominent position in business policy research (Williamson, 1975; Ouchi, 1980; Teece, 1982; Leblebici, 1983; Robins, 1987).

Porter (1980) argues that when assessment is made of strategy that full account be taken of the need to incorporate the total situation. In doing so, it is essential to understand the environment in which the industry operates and relate the company strategy specifically to the environment. Like many writers, Porter highlights that fit between the organization and its external environment is critical. Yet, in that work, he gives scarce mention to strategy implementation or to the processes of consensus formation necessary for policy to be effectively developed. How can an organization go through the processes of observing markets, deciding where it wants to be, and getting itself there if it does not involve some intra-organizational convincing, coalition building, arm twisting, inter organizational fighting and resistance by competitors.

4.8. GROUNDED THEORY

Many previous books on methods of social research have focussed mainly on how to verify theories. This suggests an overemphasis in current social science practice on the verification of theory and a resulting de-emphasis on the prior step of discovering what concepts and hypotheses are relevant for the area one wishes to research (Glaser and Straus, 1967), in this case the ingredients of successful marketing strategies in Japan.

Glaser and Straus (1967) argue that the best way to generate theory is from the data themselves and that the theory ought to explain the phenomenon being studied. Most proponents of the grounded theory approach tend to utilize observations as their basic data collection methodologies (Bailey, 1987). Unlike classical theory, grounded theory blends stages 2 and 3 of the classical theory into a single stage.

The variables and hypotheses utilized flow from the data. Consequently only those hypotheses that are verified are recognized and verification as a separate step is unnecessary. In contrast to classical theory, grounded theory starts at the empirical level and works backwards to the conceptual level.

Grounded theory has great relevance to this study. It was recognized that it would be very easy to apply the model in Figures 3.3 and 3.5 to 3.7 and look for deviations or fit and to make sincere attempts to explain the deviations. However, to do so would beg the question as to whether the key issues had been covered. While the model might have relevance, it could also represent a shield via which it would be difficult for important data to penetrate. So, the minimum of assumptions was made. Although a topics list was prepared to enable the more obvious issues, as highlighted in Chapter 3.7, to be discussed, the discussions were deliberately kept open to enable a wide body of data to be collected³. In that way the responses could be weighed and gauged to identify recurrent themes and issues which those people running the foreign MNCs identified as concerns.

4.9. SELECTION OF METHODOLOGY

Quantitative approaches have their attractions but they also have their drawbacks. For example, considered responses tend to be grouped with ill considered, passionately held views tend to be grouped with those views not zealously held. Analysis proceeds to consider unlike quantities as equals, so, having considered the foregoing review of the literature in Chapter 3 and highlighted the complexity of the issues, and in the light of previous research experience in the field I determined to opt for a qualitative approach, one which utilized grounded theory. This approach to studying planning issues in organizations is to focus on normative or descriptive sequences of phases or steps

³ See Appendix

(Delbecq and Van de Ven, 1971; Etzioni, 1967; Lindblom, 1959; Mintzberg et. al, 1976; Simon, 1957; Van de Ven, 1980). Certainly there are many reputable precedents for this selection, not least of which Porter (1991:99) admitted to being forced to turn to in depth case studies in order to identify significant variables and to explore relationships among them.

4.10. SUMMARY AND PRESENTATION OF FINDINGS

In this chapter a review was given of the optional approaches to researching this topic of *effective marketing strategies in Japan*, a description and justification were given of the methodology that was finally selected. The approach adopted was a qualitative one and grounded theory was used as a guiding principle in the research. The strengths of this approach are that it does not prejudge the situation and enables the data to define at least some of the key issues.

In the following chapter the qualitative findings are presented in a number of short cases encapsulated in boxes and supplemented by a quotations from executives that were interviewed. In this way an enriched data set has been assembled which enables effective insight to be gleaned of the issue of developing marketing strategies for Japan.

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CHAPTER 5— FOREIGN COMPANY RESPONSES TO JAPANESE OPPORTUNITIES AND THREATS

5.1. INTRODUCTION

In Chapter 2 a variety of opportunities in the Japanese market were identified, as were a number of obstacles and threats. It transpires that Japanese companies compete aggressively for market share and the criteria they adopt for judging their success differ from those in the West. For a variety of reasons: primarily low interest rates, low expectation of shareholders, *keiretsu* relationships, the motivation to achieve growth has been absorbed into the Japanese corporate culture (Abegglen and Stalk, 1985), and many other aims tend to be subordinated to this overall goal (Kester, 1991).

In tandem with other evidence, in this chapter we will study the responses made by the foreign companies in the sample that has been amassed and distil any lessons that can be learned by the adaptations they made to the Japanese context. To a large extent the structure of this chapter mirrors that of Chapter 2, which in turn followed a pattern derived from the model displayed in Figures 3.3 and 3.5 to 3.7, and as was mentioned earlier, to fashion the data into a seamless whole, a great deal of qualitative data, much of it based on interview material, is presented in boxes and cross referenced to the text. These boxes are highlighted by a font change from Times to Univers and shaded. Some case material derived from other sources is also displayed in boxes with the source data displayed at the foot of the box. The overall pattern of the chapter is to consider the foreign MNCs' responses to:

- Market obstacles
- Market characteristics and trends; then review:
- Key strategic responses; followed by a distillation of:
- Implications for marketing strategies in Japan.

5.2. RESPONSES TO OBSTACLES

In Chapter 2.2 a variety of obstacles, perceived and real, were identified. By using the structure of that section we will appraise the sample companies' responses to:

- Unfair Japanese Practice
- Market acceptability
- Cultural difficulties
- Market entry mode
- Long termism
- Distribution
- Staff.

5.2.1. UNFAIR JAPANESE PRACTICE

Most of the consumer product MNCs interviewed indicated they had met few barriers with which domestic Japanese companies must also grapple. They pointed to the existence of certain freedoms in the Japanese domestic market that no longer exist in other international arenas: cigarette advertising on television, for example, is still permitted in Japan, although it has been banned for some considerable time in many Western countries.

It was also mentioned in Chapter 2.2 that one of the few examples of restrictive practice cited in the ACCJ (1989) survey was that of the Large Scale Retail Law which was subsequently revised (in May 1991) by scrapping of the previous requirement that retail outlets with more than 500 square metres of floor space cannot open without approval from other local retailers. One now well publicized case involved Toys 'R' Us, a large US retail chain; which entered the Japanese market intending to effect a speedy expansion and immediately fell foul of this lobby. In 1990, after a series of frustrating negotiations, the company announced it

would reduce its initial plans from six stores to one or two. However, since the announcement of changes to the law, the company has accelerated its plans and now aims to open 100 new outlets over seven to eight years. By way of compromise, Toys 'R' Us agreed to reduce its regular store size from 4,900-plus square metres to just 3,500 square metres.¹ In return, the small shopkeepers are preparing to become more competitive and specialist.

Many executives interviewed for this thesis referred to the lack of "transparency" in Japanese laws. This term is often used in the context of the so-called inaccessibility of the domestic market, implying that Japan has certain laws that foreign companies find difficult to interpret. In this regard at least, Japanese companies have a definite advantage: their familiarity with the market and possibly knowing people in government organizations through *amukadari*² enable them to recognize which laws must be obeyed and which can be ignored on the grounds they are rarely enforced. For example, the ACCJ (1989) survey showed that 18 out of 20 dealers in the electronics industry violated a law that restricts the way in which products can be repaired, but none had been prosecuted. Naturally, if a less knowledgeable MNC was to ask the ministry in question for advice, it would probably be told quite simply to obey the law.

As an example of difficulties arising from lack of transparency, R.J. Reynolds (RJR) met a number of problems when it first entered the Japanese market. The context was a monopoly situation that remained unchanged until the late 1970s in which Japan Tobacco Inc. (JT) was the dominant player: JT controlled all aspects of the business — the importation of tobacco leaf, the manufacture, the distribution of cigarettes as well as the issue of retail licenses. RJR had initially approached the market as an importer, but it fell to JT to sell the product — which is where the problems began. According to RJR's president:

¹ The first Toys R'US store opened North of Tokyo on December 20, 1991.

² Hiring of ex government officials

Transparency was zero and we asked what the tariff was on cigarettes. They couldn't tell us what it was, and they couldn't find the exact meaning in the book of words. They could only tell us what it was because they had made adjustments to it — from 90% to 30%. Even so, they couldn't tell us what the local tax excise system was or what the price mechanism was.

Importing tobacco companies were originally told they were not allowed to advertise in Japanese media, nor were they permitted to promote their products by other means. Around 1981, this situation began to change and advertising restrictions were somewhat eased, but importers then learned of the complex local customs and excise tax system, which required massive investments in computer software.

Johnson & Johnson (Japan) is widely respected as a successful operation. It has been in the market since 1961, but the path to the 1990s has not been without difficulties. Most of the products the company sells — with the exception of Cotton Buds and the Reach toothbrush — are licensed by the Ministry of Welfare under "Pharmaceutical Affairs." Just as is the case for a pharmaceutical product, formulations must be submitted to the ministry for licenses to be granted — a previously long, protracted process that nowadays takes only three to four months. The Pharmaceutical Affairs Law, restricts what can be said about products to what is directly related to the company's license, in other words to its reason for trading. Although Johnson & Johnson is a major world player in the feminine hygiene business, it has launched only one hygiene product in the Japanese market — Carefree Panty Shield, a product on the periphery of the feminine hygiene arena.

Governmental obtuseness in the mid-1970s was the reason for this failure: Although Johnson & Johnson tried to persuade the Ministry of Welfare that the product's function was different, the ministry insisted on listing it as a sanitary napkin. Johnson & Johnson's advertisements attempted to convince women that Carefree Panty Shield was a product that could and should be used every day as part of their daily hygiene routine — a position it adopted in most advanced Western

markets — but the Ministry disallowed the copy, since the product was licensed only as a sanitary napkin. Another use of this product was as a backup to tampons. However, again the Ministry refused to permit this advertising line; because, in its view, this implied that tampons were ineffective. Johnson & Johnson was understandably irritated by this, and after much bureaucratic battling, decided to withdraw from that whole aspect of the business and, despite its international position, to concentrate its investment on other products.

Such anecdotes have frequently been used to argue that obstacles have been deliberately placed in the path of foreign companies; however, Johnson & Johnson representatives remark that this situation had nothing to do with the fact that it was a foreign concern. Other Japanese companies that had succeeded Johnson & Johnson with similar efforts, received comparable treatment from the ministry.

While many interviewees complained of frustrating experience with laws and government bureaucracies, several interviewees suggested that even during the period when Japan justified its reputation for being an extraordinarily difficult place in which to conduct business, progress could be and was made by adopting a hands-on approach — particularly concerning procedure. In other words, those who claimed to understand Japan believed that Japanese bureaucracy is responsive, if not to face-to-face questioning regarding specific issues and problems, then at least to a general consideration of the question if presented in the right way, and through the right channels.

Generally, interviewees suggested that the Japanese market has opened up to such a degree that MNCs now consider their treatment to be almost comparable to that of Japanese companies, while Japanese firms, in turn, have become more confident about their competitive capabilities. Combining this trend with pressure exerted over the years by trading partners has engendered an easing of the overall market situation — even if Japanese trade policies have not so much changed per se as become more pliant in the face of considerable foreign persuasion. The key to

the Japanese market may lie not with the Japanese, but with the MNCs: In short, they simply must learn to adapt to the characteristics of the Japanese market. As Eric Weber, former marketing manager of Friskies KK and currently a vice president at Nestle USA, Inc. commented:

It's just the people who sit at home who complain that they [the Japanese] do not buy big 45" or 25" TVs like we do in America, they do not drive big cars, they do not have big homes. Well, so what? People all over the world are different. We Americans often just do not recognize that. We are myopic; we think the world revolves around Cincinnati.

Japan continues to change at a rapid pace. There is growing evidence — supported by interviews conducted for this thesis — that the Japanese consumer products' market, far from being impenetrable, is relatively free from structural impediments. According to Kneale H. Ashwell, former chairman of Johnson & Johnson (Japan) and currently managing director of J&J's operations in Australia and New Zealand, this liberalisation is not even recent.

I would think, that contrary to popular conception, or should I say misconception this is a free market; and has been for many years. There is nothing that we want to do here which is legal that we are not allowed to do. In fact you are allowed to do some things here in the promotional area that you wouldn't be allowed to do in the EC.

Although management consultants and some others suggested that Japanese companies are inclined to "co-operate on pricing" matters, thereby sometimes reducing one of the more destructive aspects of competition, most of the consumer product MNCs interviewed indicated they had met few barriers with which domestic companies must not also grapple. They also pointed out certain freedoms in the domestic market that no longer exist in other international arenas: cigarette advertising on television, for example, is still permitted in Japan, although it has been banned for some time in many Western countries. However the permitted screening time is being progressively pushed back so that now no cigarette

advertising may be shown after 10pm.

Philip Morris is a foreign company that appears to be succeeding in Japan, with its products commanding a 10% share of the Japanese market. In its recent launch of Merit, a new brand, it found the limits within which it could operate rather liberal, especially with the media choices available and what it could say. For example, by exploiting the regulatory framework that permits the use of comparative advertising, that company was able to claim "Merit tastes better than Japan's leading light with 33% less tar". In this way, comparison was made to JT's Mild Seven without naming it.

Foreign MNCs should note that Japanese companies operating abroad also experience difficulties with restrictions that do not exist on their home territories: for example, environmental restrictions in Europe and the US — particularly on the discharge of pollutants — are currently stricter than those under which firms must operate in Japan³.

5.2.2. MARKET ACCEPTABILITY

Above all else, quality is the factor that determines the acceptability of products and services in the Japanese market. All companies in the sample testified to the particular importance of quality and tailoring of products to the Japanese context. In the words of RJR's president Keith McCulloch:

³ This situation may change with the early 1991 appointment of Japan's first Minister for the Environment. A Diet committee is currently considering legislation that would tighten regulations on the handling and disposal of hazardous and other wastes - although details remain undecided. In addition, a MITI-backed bill, approved in April 1991, aims to reduce industrial waste and promote recycling of finished products. Manufacturers will be urged to design with recycling in mind and supply details of merchandise content to facilitate the process.

Many companies still do not understand quality. Standards here are far higher than they are in the States. It's something you have to learn. We've learned that poor quality doesn't sell. Here we are in the high priced part of the market, somebody may be smoking one brand through the week and our brand on Saturday night so if he buys a pack that has a lower quality than he's accustomed to through the week for which he is paying considerably less, he is going to complain.

The consumer doesn't have many choices here. It is very difficult for him to buy a house, the power of the consumer is in what he buys and so if he doesn't like it, he complains and he threatens you. There is a whole industry out there of people complaining, of experts offering advice on consumer complaints.....The quality standards we have in Japan are higher than they are in the US Market.

It was RJR's experience that complaint rates were consistently higher than in any other market.

People complain more here. We have to be sure we handle complaints properly so that we don't lose consumers.

As an importer this issue of quality is one that requires much effort to educate and persuade colleagues within the company that special endeavours are necessary.

From RJR again:

Two or three times a year I go back to the US and I go to the factory, talking to the people that make the product, trying to get them to understand why it's so important for this market, why quality standards are so high, that it's a way of life here. You can't just write letters about it; you've to go and see them.

Several companies, Amway and Avon in particular, commented on the particular emphasis they placed upon packaging design in Japan. This emphasis on quality of packaging presentation applies to other types of business as well. Failure to understand these crucial elements results in dockside rejections — even in the pet food arena ship-loads of product are sent back to the country of origin — and the

myth of Japanese obstinacy is thus perpetuated.⁴ In the words of Colin O'Halloran, Vice President of Avon Cosmetics:

One of the mistakes that Western companies make is that, they don't realize the quality here — everyone has it and it is of a very high standard and you can't get ahead of your competitor by making it just a little bit better or making the bad a little bit less bad. The standard is absolute, it is 100% quality and that is something which throws them. They are not used to this relentless quality in product forms and in packaging.

Our British education helps us separate benefits very clearly. That is why we are quite happy to go to Sainsbury's and buy "own label" water because it is bottled by Sainsbury's or Mark's & Spencer. In other words, we differentiate between what is in the bottle and its overall appearance, but in Japan the visual component is of primary importance. Japanese prefer very good brands. They view the entirety of the product concept, rather than merely its aesthetic qualities or its functional performance.

Effecting these higher standards is a difficulty that cannot be overstated:

If you are going to be significant in this market it's almost inevitable that you will have to manufacture here, because that's the only way to achieve Japanese standards. It's going to be almost impossible to get American workers on the same wave length as the Japanese consumer

James Conte -- Vice President ASI

Quality was a major issue in Levi Strauss's experience. It attempted to serve the Japanese consumer from a Hong Kong base⁵: Unable to match its styling considerations precisely to a discerning Japanese public, it found it necessary to relocate to Tokyo to be more responsive to the market.

⁴ See Box 5.11

⁵ See Box 5.1

Box 5.1 Levi Strauss (Japan)

When Levi Strauss (Japan) began operations in 1971, it experienced a number of growing pains; the period 1971-77 represented a learning curve, during which the company realized it would be necessary to amend some of its initial practices. As a result of changes it subsequently made, business has doubled in the last two to three years.

A key variation was to have the product designed in Japan for the Japanese consumer, by Japanese designers. Previously, Levi had been designing in Hong Kong for the "Asian" consumer, and then shipping to Japan; however, the Japanese liked neither the style, fit nor design of the product. Levi adopted a step-by-step approach to remedy the situation. First, it began manufacturing in Japan; second, it hired Japanese and trained them as product managers and designers. This move provided the quality expected by the Japanese consumer and meant a fast turnaround time from product design to manufacturing, and ultimately delivering to retail outlets.

The process of relocation and adaptation to Japan, begun in 1975, took from five to six years and during this time the company developed its ability to work with the retail community, Levi Strauss' s suppliers as well as the new Japanese staff it recruited; thereby developing the employees' understanding about the company and the Jeans' market. The period 1984 to the present has also been an important time in the company's development. Levi Strauss' Japanese sales started to expand in 1986, and the company has been growing at an average of about 35% per annum since then, a faster rate than that at which they are adding people to the enterprise.

Communications

Another crucial factor Levi Strauss adopted especially for Japan in 1978 was its consumer communications: it started to advertise its unique heritage. Before 1978, Levi Strauss used the same life-style advertising it had been projecting world-wide — insofar as it would have been possible to replace the Levi logo with one of a competitive and the advertisement would still have been applicable. There was, however, a preferable route this advertising could take, and that was to evoke the history of jeans in the US: Levi Strauss invented jeans in 1850, and most Americans equate jeans with Levi's.

Since 1978, Levi Strauss has changed its advertising message to convey the uniqueness

of its product in terms of its origins and continuing heritage. While Levi Strauss has traditionally highlighted American heritage in its communications, it has done so with care, using "American" quality to emphasize the company's values and encourage consumers to feel positive towards the brand. The intention is to avoid communication of anything ephemeral, non-proprietary, or subject to rapid change. For instance, a momentary silhouette or the snappy "right fit" image adopted by several of its competitors represent values that are transitory. The Levi strategy was to look for something of greater substance, an umbrella idea that could embrace the whole company. In so far as Levi Strauss invented the blue jeans (and so could be considered a proprietary asset), the company adopted the position: *Thomas Edison very famous inventor; Levi Strauss very famous inventor*. Over time, the analogy has been developed on this theme, the purpose being to share some of the unique factors of Levi's as a brand and as a company with the world of invention.

The company stresses that while there are quality advantages to manufacturing in Japan; this is not a key advertising message. Levi emphasizes the origin of the brand and the different elements — original button fly jeans, the original tab, the two horse patch; all factors that other companies have tried to emulate in some way. It is crucial that the consumer understands that these elements began with and are unique to Levi: Since 1977-78, consumers have been learning to appreciate that with Levi's they are buying a piece of heritage and therefore getting added value.

Winning distribution

Until 1975, Levi Strauss used a direct sales force throughout Japan. Nonetheless, sales in the rural areas did not grow as fast as anticipated; like many countries, the rural areas are conservative, and once they build a relationship with suppliers, shopkeepers tend to maintain those ties. Similarly Japanese consumers, once they have built up a relationship with a brand, will tend to continue that relationship. Clearly, a revision in Levi Strauss' distribution strategy was required. Relationship building is now a key element in Levi's distribution strategy.

The relative importance of retailer versus wholesaler relationships changes throughout the product life-cycle. Initially, Levi Strauss required the wholesaler to work with retailers to encourage them to try their particular brand, providing the follow-up service and the sales related efforts that were necessary. In Japan, the wholesaler may also be responsible for the receivables, the extension of credit terms, all of which encourage the retailer to try the product and to sell the product to the consumer. The consumers were wary at first, since their purchasing patterns were already well established. It took time

in the rural areas for those patterns to change, both at the consumer and the retailer levels, so the first effort had to be directed at the wholesaler and retailer relationship. Once those efforts were successful — and, on a parallel path, the manufacturers' communication to the consumer was successful — then a very strong relationship between the consumer and the Levi brand resulted. Since the consumer is purchasing the brand via the retailer-wholesaler network, the relationship needs to be very strong between retailer and consumer to get the product moving. The consumer relies heavily on the recommendations of a shopkeeper to try the brand. As the Levi business grew, it was possible to allocate more revenue to reinforce the image and the value of the Levi Strauss brand. In that way relationships were fostered between the brand and the distribution channel, as well as between the consumer, the manufacturer, and the retailer.

Standardization vs Adaptation

While operating in Japan, Levi Strauss has successfully introduced some of its international methods, and has been able to break some accepted norms of distribution. It has also had to adapt some of its methods to Japanese expectations. For example, the Levi Strauss policy of not taking back returns was very unusual, as was its very tight credit policy. Any wholesaler agent wishing to do business with Levi Strauss would have to persuade his retailer contacts to restructure their businesses substantially. Levi Strauss also managed its inventory, production and sales relationship very thoroughly, but since it was working through a wholesale agent who buys inventory from it, stores it and then sells it on to the retailer, Levi Strauss had a vested interest in the wholesaler managing its inventory properly; neither too much, nor too little. Too little means not servicing the retailer properly. Having too much means the retailer will probably have some old styles left over that are not going to be selling at top prices, causing the brand image to suffer, and ultimately profits to decrease. Levi Strauss therefore became involved in the wholesalers' merchandising process, i.e., the control process of managing the purchasing, inventory and sales on a monthly basis. This was most unusual in the Japanese context. Normally the wholesaler would decide and buy accordingly. Levi Strauss, however, took a much more interventionist approach because it was (and is) important to the company that the wholesalers remain healthy so that they can represent the brand properly, and offer service to the retailers.

Source: Interview material

As Kneale Ashwell, former chairman of Johnson & Johnson (Japan) and currently managing director of J&J's Australia and New Zealand operations noted:

The Japanese are more discerning, more discriminating than the British or Americans. It's got nothing to do with what they pay for a product; it's part of their culture. They live in a society that believes that service is important...the Japanese are quality fanatics. The attention to manufacturing detail and quality starts way back for the Japanese in their own personal experience. They do not expect to get a product that is about right, or just a little bit wrong; they expect it to be totally right. That philosophy really isn't just restricted to the manufacturing environment; it's just the way of life here. They have very high expectations of quality.

Whether his attribution to the cultural connection can be justified is not the point, what is important from the perspective of this thesis is the importance of recognizing the importance that quality has a marketing ingredient. Even if it is true that the concern for quality has no direct connection with the high price the consumer has to pay, a high price tag will reinforce the desire to ensure that quality is delivered. Foreign companies are well advised to ensure that their total quality, product and service, is of the highest order if they are attempting to compete in Japan, or against Japanese competitors anywhere. Jerry Rosenberg, the marketing manager of Amway (Japan), made the point:

The Japanese are so ingrained that they are going to pay a lot, that they just give up. They pay a lot but they want it to be perfect, but you can justify what you charge people based on a service level that makes them happy. We have found that true here in Japan.

Keith McCulloch, former president of R.J. Reynolds/M.C. Tobacco Co. Ltd, endorsed this view:

You have to invest in quality. Quality is still one of those things that many companies do not understand. Quality standards here are much higher than they are in the States. It's something you have to learn. We've learned that poor quality doesn't sell. People do not buy poor quality products.

Japanese quality concerns extend into the pet food business, in which it is usual for manufacturers to rely upon flexible formulations to guarantee high quality and high palatability. In Japan, however, flexible formulations are likely to cause complaints about colour and other variations.⁶

The companies interviewed for this thesis cited many instances of their "foreign" products being accepted by the Japanese consumer:

- The tobacco industry illustrates the market acceptability of certain imported products; when JT's monopoly was lifted in the late 1970s, it was surprised to note how quickly import penetration grew. The importers' ability to introduce products that the Japanese consumer wanted to smoke was demonstrated by the rapidly growing market share of imported brands, which leapt from 2% to 9% between 1986 and 1987 — aided by the suspension of duties in April 1987 — and has continued to grow, albeit at a slower pace. To offset this loss, JT has become involved with many kinds of new enterprise.
- Johnson & Johnson occupies leading market positions with its Baby Oil and Band Aid products; Reach toothbrushes are also currently high in the rankings;
- Revlon has successfully carved out a market niche despite the indigenous might of Shiseido and Kanebo;
- Coca Cola occupies a dominant position in a market that sees more than 1,600 new soft drink products launched each year;
- Bristol-Myers' analgesic Bufferin sits in the number one position in its category, with more than 30% market share;
- Nippon Lever and Procter & Gamble are carving out significant positions in the market against powerful local competitors such as Kao and Unicharm. In the shampoo sector, in only seven years Unilever has exchanged positions with Kao. Due to a critical boost from the Timotei brand, the group's market share

⁶ See Box 5.11.

is now heading towards 60 per cent in 1993, up from 20 per cent in 1981 whereas Kao's has been reduced to 20.

- Both Avon and Amway have successfully built large businesses based on Western business concepts.

The list is surprisingly long and covers a diverse product range. The message for MNCs targeting Japan is a basic and obvious one: If they can understand Japanese consumers, address their needs, and deliver acceptable standards of product quality, Japan offers tremendous opportunities.

5.2.3. CULTURAL DIFFICULTIES

To an outsider Amway (see Appendix I) is a typical American concept. Nevertheless Amway has utilized the Japanese group traditions in the development of its network marketing approach to direct distribution, in particular it utilized the tradition of Japanese housewives staying at home and making comparison of their situation with the ten million females who have joined the work force in the last ten years. In so doing Nihon Amway reached the number one position among the fastest growing foreign owned companies in compound annual sales terms 1983-86 (Lacktorin, 1989). As the marketing manager for Japan explained:

Many of the cultural and social conditions do lend themselves to Amway's business doing well here but the same thing could be said in many other cultures that are very different from Japan. Our concept appealed to a highly educated group of people who were at home, not doing much. It provided them with an interest beyond just selling products — getting together for meetings and having a reason to meet other people. The aura of Amway, the ability to meet people and venture out into new areas was very appealing so we had many housewives who became Amway distributors.

Besides that we also found that we appealed to very young Japanese who were interested in moving outside the traditional work area and undertaking the challenge of building a business of their own, with the hopes of moving to a level in this business at which they could make a salary equal to that which they were making in a traditional

Japanese company. The group aspects, the Americana that Amway brings appeal to a wide spectrum of Japanese.

Amway made the point that its approach to developing the Japanese business is not radically different from that adopted in other markets. Culture is not seen as an obstacle, it is merely something to master; it enables communication to be rendered more effectively if it is performed considering knowledge of cultural sensitivities.

Rosenberg:

I don't think it's any different to any other country. I think if you go to Hong Kong and were to visit Amway meetings there I think you would find the same thing. Leaders are leaders throughout the world. Obviously a Japanese leader might have a different way of doing things but it's basically 80:20 ... 80% the same and 20% might be different. I think the likeness between cultures is what makes Amway's basic system so successful throughout so many cultures. The ability for Amway management in each one of those countries to know what the differences are in their culture and to react to those differences and customize the basic Amway plan is what makes us successful. When we go into a country we assume that the basic Amway sales and market plan are going to work and it is up to local management to make whatever changes need to be made to accommodate the cultural, legal or whatever situations that arise. In country after country it has proved to be successful. There's nothing unique about Japan.

I think what you need to do is be sensitive, recognize that there are differences. The more you can understand and identify the differences the more you will be able to work within the system but gaining that understanding does not mean that you will be able to work in a Japanese manner. It means that you can understand the interaction going on and you will be able to communicate your ideas in a more meaningful way because you understand the differences.

Sometimes conventional wisdom regarding Japanese attitudes can be very wrong. The Japanese culture can also be supportive to foreign businesses. Dick Bush, a long time Japanese entrepreneur and currently manager of the Tokyo American Club, described his experience of informing his creditors on his becoming bankrupt after many successful years of trading in Japan.

The amazing thing was I didn't lose any friends. ... When I knew this was going to happen I got hold of my bank and my attorney, an American but of Japanese decent and my accountant who was Japanese, and we agreed it was inevitable. So I said I wanted to call a creditors' meeting and face them, and they said you can't do that. I said what do you mean I can't do that... if you call a creditors' meeting they said when they leave that night they will take your furniture, they will take everything in your office, they will strip you.

However I had my secretary call each of them and tell them that Bush San wanted to meet with them at six thirty and we did not have good news, but please would they come. They all showed up; there were seventy eight-people at this meeting. I had my banker and my accountant and my attorney sitting there and I explained the position. The creditors informally appointed a spokesman for the meeting and we talked for a couple of hours. The up-shot was, they said Bush San ... we don't want you to close down and Mr Bush... we will forget about your promissory notes (maybe a quarter of a million dollars) at that point and they all said collectively that they were not going to put my notes out for collection, they would much rather try to help me to keep things going as long as they could. "We don't think you are cheating us in any way and we want you to keep trying and we will work with you." So we tried for six months and we could not make it go so I had another creditors' meeting and I said "I think we have just got to declare bankruptcy." They said, "No, Bush San, we don't want you to declare bankruptcy"... they tore up their promissory notes there and then saying "You just close down if that is what you feel you have to do but we do not want you to go into bankruptcy".

These examples are vivid illustrations of experiences that the sample companies have with the Japanese culture. However the construct of culture does not exist in isolation from other aspects of business experience; so other examples will be cited at relevant points as this work proceeds. What emerges is a pattern that differs from the *nihonjinron* propounded view that Japan is different school and which highlight the similarities between Japan and other markets. Opportunities are based on recognizing similarities and responding positively rather than being deterred by perceived and sometimes imaginary obstacles.

5.2.4. MARKET ENTRY MODE

In this section I shall consider three main issues:

- Licensing
- JVs
- Strategic alliances.

5.2.4.1. Licensing

In Japan, licensing has been favoured by a number of companies as a mode of market entry. Philip Morris licensed its Marlboro brand to JT in the late 1970s, when the market was closed to foreign importers, and is now competing against Marlboro in Japan with its flagship brand, Lark. Ralph Lauren also entered Japan via a licensing arrangement (see below), achieving a distinctive market presence with its Polo brand.

Foreign manufacturers and marketers interviewed cited various products they considered to have a high quality perception in their home markets, but which failed to convince buyers for Japanese department stores (*depato*) of their ability to meet the standards of the Japanese consumer. To complicate the "foreign" issue further, clearly while foreignness may have some appeal to the consumer and can indeed connote quality; at the same time the Japanese are so concerned with the highest quality levels that they often have little faith in products manufactured elsewhere. This creates a major obstacle for would-be market entrants, however licensing manufacturing to Japanese suppliers has proved a good way of assuring buyers of Japanese quality standards.

5.2.4.2. JVs

While JVs have been shown to be a popular direct investment route into the Japanese market, as Japan's markets open and as more people gain knowledge of Japanese conditions, an increasing number of foreign companies is considering they could go it alone.

Many foreign companies have entered the Japanese market by way of JV arrangements with the *sogo shosha*. The primary reason for this is that the *sogo shosha* are believed to offer both connections and entry points into what is often depicted as a complicated, inscrutable marketplace. However, interviewees suggested that this is an impression fostered by the *sogo shosha* to attract — thereafter limiting, rather than promoting — foreign brands' market penetration. Moreover, while excellent on mass market merchandise, the *sogo shosha* are, according to the experience of some of the interviewees, weak on the handling of items that require carefully planned sales policies.

In many cases, JVs are tenuous marriages of large companies, often from distant lands, haphazardly joined for some single purpose. In many JVs, no one partner has absolute control, and this inevitably creates tensions. Moreover, the owners may disagree over matters of policy (if they can decide policy), and all too often the relationship is not based on mutual respect: According to executives interviewed, many JVs in Japan have failed simply because the foreign partner has abrogated its responsibility; either it has not written into the contract specific mechanisms by which it can provide serious input, or it assumes that whoever is the distributor or partner will take its interests to heart.

On the other side, the *nihonjinronists* persuade the foreign partner that Japan is unlike any other market in the world, as if for some mysterious reason one need not pursue one's business interests to the full. However, if the Japanese partners do not behave as the foreign partner expects, this is usually because the Japanese side represents the interests of its total business holdings and these interests may conflict

with the specific joint venture in question. As the President of Bristol-Myers Squibb explained:

Providing he can do so without being dishonest, a Japanese partner will consider his wider business interests ahead of any joint venture, which may well mean some reduction in the JV's outcome. Even for the most senior of managers, working in a JV company means going to work every day to represent the interests of his own side of the partnership.

Some pharmaceutical businesses are beginning to break up. One of the reasons for this is the original contracts. JV literature abounds, but a key message drawn from this research is that tremendous forethought must go into the JV agreement.

For example, what products will be within the remit of the JV? Will all the foreign partner's therapeutic categories be covered, or just certain lines? If all products are to be included, then the Japanese parent has a legal right to them, thereby limiting the foreign partner's scope for future development.

Mitchell Cybulski, President, Bristol-Myers Squibb

A typical scenario is that someone at corporate headquarters is given legal responsibility for the JV. That person may relocate to Japan or, even more unfortunately, he/she remains at the home office. Meanwhile, the Japanese partner is carefully monitoring its own people in the JV, and will generally have a greater influence over those players. This results in a management imbalance, so it is inevitable that the arrangement comes under strain and one side seems to be far more committed than the other. A JV is by definition only successful when both parents have a vested interest in perpetuating the alliance. Generally, the joint venture decision should be handled on a case by case basis.

Many of the major companies interviewed for this thesis are involved with JVs or had originally started that way in Japan; and their experiences offer invaluable insights into the kinds of problems and solutions that do — and do not — work in

Box 5.2

Companies interviewed with previous or present JV involvement

Asatsu/BBDO

Bristol-Myers K.K.

Eastman Kodak (Japan) Ltd.

Friskies K.K.

ICI Japan Limited

Heinz

Infoplan

Johnson & Johnson Japan

Kohler Japan K.K.

Master Foods K.K.

McCann Erickson Hakuhodo Inc.

McDonald's Company (Japan), Ltd.

Nippon Lever K.K.

Philip Morris K.K.

R. J. Reynolds/M. C. Tobacco Company Limited

Rolly Doll Inc.

Smith Kline Beecham

In 1983, Heinz entered Japan's frozen food's market by way of its frozen foods subsidiary Ore-Ida and a JV with Mitsubishi⁸. From a US perspective, the arrangement initially seemed very promising, however, when it failed to widen its distribution base, investigations revealed that the JV was not actively pushing Ore-Ida's products to fast-food outlets because it already had exclusive access to its own — not insignificant — Mitsubishi businesses (Mitsubishi owns one of the largest

⁷ See Box 5.2

⁸ See Box 5.7.

wholesale grocery companies in Japan), but had no vested interest in systematically selling product to outlets owned by its competitors.

The way the issue was tackled by Heinz was to perform a marketing audit that showed that 80% of Japanese households had toaster ovens. The subsequent evaluation suggested that an opportunity existed for Ore-Ida to differentiate its product by implementing a branding strategy, since the Japanese competitors treated the product — frozen French fries — merely as a commodity.

In pursuing its strategy, Heinz was limited by its distribution arrangement because it was tied to a team willing only to make a fraction of the potential distribution coverage available to the Ore-Ida brand. When challenged, the JV partner appeared uncomfortable and unenthusiastic about making efforts beyond the Mitsubishi network. The Ore-Ida team conducted an attitude study of the retail sector and was thus able to demonstrate to Mitsubishi that opportunities existed far beyond its own network. The JV partner finally agreed to an extension of its distribution coverage for the brand. However, many other interviewees indicated that the major trading companies ran tightly controlled operations and did not want to be pestered about possible changes by their partners.

Difficulties occur even with matching the behavioural expectations of the Japanese and foreign partners. The Chairman of ICI (Japan) referred to the problems in chairing a board meeting of their JV. The *gaijin* he noted tend to judge their contribution by hogging the meeting, whereas their Japanese counterparts gauge their's by their ability to stay silent with the occasional uttering of "few wise words"; a balance must be sought.

JV situations are neither black nor white. There are circumstances where the performance of foreign MNC brands deserves to be called a success, at least on the surface. Occasionally, the JV partner will develop the brand to a certain point in

the market and no further, as was true of Ore-Ida and Mitsubishi.⁹ On the other hand, the foreign company may consider that its brand has broken through the barriers and into the Japanese market. However, the success may be illusory, since the Japanese partner probably used its own distribution leverage to circumvent the barriers. If the foreign MNC tries to recover control of its brand to handle it directly, it may soon learn that their product is nothing without the JV partner's support.

Even when JVs are formed in Japan with global competitors from outside, foreign MNCs become perplexed when the JV company loses money. Yet, according to interviewees, the Japanese partner appears relatively unconcerned about its own share of the losses; because, apparently, JVs are used by the *kaisha* as devices to contain potential competitors. The Japanese believe that losing a few million dollars on a JV arrangement may be much more economical for the Japanese partner than having a major international company attacking their home market. It is merely a commercial judgement.

Some interviewees used the above examples to argue that Japan remains characteristically different from other markets in their collective experience. However, what they miss is that the *sogo shosha* usually share interests in competitive fields and to put their quandary into Western terms: if Campbell's Foods approached Heinz in the US and asked it to distribute its soup products, would it not be naive to expect 100% dedication? It appears that a number of foreign MNCs have learned this lesson rather late in the day, and have perhaps over-reacted by claiming that their Japanese business partners were dishonest, whereas from the Japanese point of view, a JV appears to be a perfectly intelligent arrangement to keep competitors at bay. From the MNC side, expectations can be much too high, since the MNC typically commits very little, other than money, to

⁹ See Box 5.11

the JV relationships it forms.

There was of course some praise for JVs. For example, Bristol-Myers Squibb K.K. has achieved several market leadership positions; its success is based on two 50:50 JVs; Bristol Lion and Lion Bristol. Indeed, Bristol-Myers was unhesitant to praise the contribution made by its Japanese partner, Lion. As Mitchell P. Cybulski, the president of Bristol-Myers Squibb KK, outlined:

In the case of Bufferin it has been a long-term development process. The keys to success in my opinion are: number one, hooking up with good partners ... What Lion brought to the table was, I would say, perfect manufacturing. They really developed a product — with a very "low cost of goods" but also an impeccable product. Every single Bufferin tablet is computer scanned for conformity. I think we have an even better product than in the US, and the US product is flawless

The second thing Lion brought was a presence. And a presence in the consumer business always brings distribution. Even today, when we launch a new product within three months we get phenomenal coverage.

Realities do prevail. As a method of entering the market, JVs have suited various sizes of company at their respective stages of market entry. They were very popular, and in many situations they are still valid, but several interviewees suggested they are now falling out of favour. However, this unpopularity is associated primarily with companies of a particular size and international position: Nippon Lever, for example, negotiated to be released from its JV arrangement to gain complete control of its Lipton business.¹⁰

When the obstacles to trading in Japan were more stubborn, many companies found JVs essential; but with the market opening up, these companies recognize that constraints have eased while their Japanese expertise has grown. In some cases, this has resulted in a new-found confidence to go it alone: A recent Daiwa Securities

¹⁰ See Box 5.12

study traced changes in Japanese ownership of Japan's JVs and found that in the period 1982-89, at least 82 JVs switched to majority Japanese control, while 45 were taken over by the foreign partner (see Box 5.3). Since this survey by Abegglen and Watanabe (1990), along with most statistics on acquisition in Japan, is based on press reports, it includes only the most significant transactions; no doubt it understates the level of activity.

Box 5.3 Trend in JV Buyouts in Japan (January 1982-October 1989)

Year	Buyouts by Japanese Partner	Buyouts by Foreign Partner	Total
1982	9	7	16
1983	9	7	16
1984	4	3	7
1985	-	15	15
1986	12	5	17
1987	9	1	10
1988	20	2	22
Year unknown	7	4	11
Total	82	45	127

Source: Abegglen and Watanabe, (1990)

The ratio of foreign and Japanese acquisitions remained approximately equal in the period 1982-87, but since the yen's appreciation there has been a dramatic increase in the number of buyouts by Japanese companies. Between 1986 and 1987, there were at least 18 buyouts by the Japanese side and just six by the foreign partner¹¹. However, it is possible that a number of these were due to foreign firms finding a combination of the yen's appreciation and Japan's booming stock market

¹¹ For a list of JV buyouts by foreign partners see Appendix IV.

an opportunity too tempting to pass up. In other words, they seized their chance to cash out of arrangements that were perhaps sub-optimal.

On the other hand, a large number of foreign parties have been on the buying side of JV transactions.¹² Three-quarters of those cited increased independence as a motive for their action, indicating a desire to have a more active role in the parent's strategy. The following reasons were also given:

- Changes in strategy;
- Expansion of Japanese activities;
- Integration of Japanese subsidiary following acquisition in the US;
- Establishment of a production base in Japan.

The available data shows the length of JV experience before buy-out averages 13.1 years. The acquisition of a JV with which intimate links have existed for a long period is taken as a vote of confidence in the organization, showing a desire to build on past relationships. This is a virtue held in high regard in Japanese society, and in many cases the Japanese partner will not divest completely, viewing the shift as a way of strengthening future co-operation. For instance, Yokogawa Electric, Japan's leader in industrial process-control machinery, has been involved in two JVs where the foreign partner increased its ownership in the 1980s: Yokogawa-Hewlett-Packard (YHP); and Yokogawa Medical Systems (YMS), with General Electric (GE) (Appendix II). Although the two buy-outs, according to Abegglen and Watanabe (1990), occurred for very different reasons, the US partner in both cases utilized JV experience to strengthen its overall position in Japan.

In the US and most other capitalist countries, ultimate control of the firm is vested in the shareholders, who have the right to name the board of directors and at least indirectly to determine management policy. If a majority of the shares are owned by another firm, this is described as a "controlling interest", and the

¹² See Box 5.4

corporate owner may dictate policy to its subsidiary. In a strictly legal sense, this is also true in Japan; however, in practice, the system functions quite differently.

In Japan, ownership may not be sufficient to guarantee effective control; employees are treated much the same as shareholders (Abegglen and Watanabe, 1990). Unions are organized on an enterprise basis, and the secondary labor market is underdeveloped. Moreover, with a plurality of shares collectively held by stable shareholders who have little desire to manage the firm closely (except in emergencies, to protect their interests as creditors), the largest shareholder may be able to select most of the board of directors and make controlling decisions even though holding as little as 20-30% of the equity. Corporate headquarters may not appreciate this fact, but it is well understood by experienced executives such as former Kodak president Albert Sieg, who commented.¹³

In Japan, you can have more control with 15% of the shares than you would in the US with 100% of the shares — because of the relationships. It's not necessarily based on who owns what, but corporate lawyers cringe when they hear this kind of talk.

Many would-be foreign acquirers despair when they learn of these practical barriers to gaining a majority position in a Japanese company; however, they may be reassured when they realize that a minority position can work equally well to achieve a specific business purpose. Japanese firms often take equity positions to solidify long-term business relationships — a practice viewed as a sign of commitment to a common purpose. The system of mutual share holdings, commonly adopted by Japanese companies (but rarely utilized by their foreign counterparts), facilitates a high degree of informal sharing of information and business resources in a flexible organizational structure.

It is all the more curious that, although Japanese corporations have acquired many other companies in world-wide arenas reciprocal acquisition by foreign

¹³ See Box 5.4

companies in Japan is rare, the largest such move to date being that by Merck¹⁴. This may be so, but few firms can muster the funds and expertise that are at the disposal of certain international blue chip companies, and if there is any doubt that an MNC has the singular products, knowledge or requisite funds to compete directly in Japan, a JV is still the primary option.

A few significant moves were made in the early 1980s, with Merck's US\$332 million acquisition of a majority 50.5% share in Banyu Pharmaceutical (1983) by far the largest. Merck's move in 1983 was also the first foreign acquisition of a Japanese firm listed on the First Section of the Tokyo Stock Exchange. However, the expected flood of foreign capital into Japanese corporations failed to materialize, and until now, relatively few have followed in the pharmaceutical company's footsteps.

5.2.4.3. Strategic alliances

A competitive alliance is one viable option for MNCs trying to set up distribution. When US brewers Anheuser Busch and Miller's entered the Japanese market, they tied up with major Japanese brewing companies to utilize their ready-made distribution systems. However, at the same time, these Japanese brewers are aggressively developing their own new products at a fast rate, thereby raising doubts as to the concentration and effort they are likely to devote to the imported brands. In other words, although such strategies are common in the brewing business in international markets, alliances and tie-ups merely raise the question of why these US companies are making such low-key efforts in a market that warrants a far more aggressive approach.

Other major foreign MNC players have developed alliances that have stemmed from their presence in the Japanese market. Nestle and Coca-Cola, for instance, are

¹⁴ See Appendix IV

collaborating to distribute canned hot drinks through vending machines, a business largely unknown outside Japan. Similarly ICI is to invest £25m in a joint venture in Japan to make ozone-friendly refrigerants. Its partner is Teijin; the Osaka-based fibres and chemicals' company. Moreover, J&J and Tokyo-based Olympus Optical Co. have entered into an alliance, the first of its kind, in the market for endoscopic surgical technology.

Olympus Optical and Ethicon have worked closely together in Japan on expanding educational opportunities for surgeons in Asia and both companies are similar in culture with innovative approaches to product research, marketing and scientific development.

5.2.5. LONG TERMISM

Companies such as R. J. Reynolds say that in Japan they focus not on profitability, but on volume. Such a strategy, which begs continued investing over the long term requires faith at the corporate HQ level. The primary objective must be to build market position; if this can be achieved, then profitability can be expected to follow. Kodak represents a textbook example of this strategy in practice.¹⁵

¹⁵ See Box 5.4

Box 5.4**Acquiring a strategic position in the Japanese market: Eastman Kodak (Japan) Ltd**

Despite a 100-year history of operating in Japan, when Kodak established its "1984 vision" that the company should "take charge of its own destiny", its "top-of-mind" brand awareness stood at only 5%. At the same time, Fuji Photo Film had emerged as a serious global competitor.

Government protection had enabled Fuji to develop an entrenched domestic position from which to penetrate overseas markets, while Kodak's position was declining. The Occupation authorities had persuaded Kodak to abandon the facilities it had been operating pre-World War II to enable Japan's battered industries to recover. Subsequent Japanese government pressure forced it to scale down its distributorships from around 20 to just two: Nagase for consumer products, and Kusuda for business systems. Until the 1970s, tariffs for Kodak products remained high. Even today, although there are no actual impediments remaining, former Kodak (Japan) president, Albert Sieg, believes the company still suffers from "barrier hangover". During this time, Fuji managed to gain a 70% share of the Japanese market and had set out on an export drive to threaten Kodak's global markets. Konica accounted for 20% of the remaining domestic sales, leaving Kodak and some European firms to share the remaining 10%. In an attempt to change all this, Kodak is now using a wide variety of methods to strengthen its position: acquisition; minority participations; new JVs; wholly owned investments; aggressive marketing; image-building; and recruitment.

Top management decided to invest for the long term, since they considered Japan to be strategically critical for three reasons:

- Kodak was only a minor player in the world's second largest market;
- Without a strong presence in Japan, Kodak would be unable to influence the actions of its chief global competitor, Fuji Photo;
- Kodak could not afford to miss out on the technological developments in electronic imaging taking place in Japan.
- These considerations led Kodak to establish a separate Japan region, to bring over high-level managers, and to launch a series of strategic moves that have enabled it

to raise rapidly both its profile and its profits in Japan. Today, Eastman Kodak (Japan) Ltd is not just a photographic company; it has developed a presence in: Health sciences; specifically medical X-ray products. Kodak has developed its Japanese medical imaging business into its number two market in world-wide terms of revenue and earnings.

- Graphics imaging and the provision of services for architectural and engineering applications, an arena in which Kodak claims to be gaining ground.
- Professional imaging; Kodak holds an overwhelming share of the professional colour reversal film market, against heavy domestic competitive pressure. It is beginning to regain a presence in the black and white market, with the T-Max product range.
- Pharmaceuticals; an arena that Eastman Kodak has entered on a world-wide basis, the principle being that the basic technology offers synergy with its existing chemicals' expertise. It has made a major leap in this arena by the acquisition of Sterling Drug.

Kodak has utilized what it refers to as a multi-stage strategic push. Because it had delegated key marketing responsibilities to distributors for decades, the first step was to recover control of its distribution channels, and then regain management control of planning, pricing, marketing and promotion. An example of this control recovery policy was in health sciences (medical X-ray products), where it has successfully widened distribution by making acquisitions. Under the previous arrangement, its distributors would not have allowed the acquisition of other competitive distributors. In Kodak's view, it is crucial to have the freedom to make decisions of this kind.

By securing control of the marketing channels and maintaining a direct dialogue with its client base, Kodak argues that it is better able to place the right product with the right customers, and is more effectively positioned to learn about buyer requirements. In the past, its experience was that multiple-people, multiple-language channels delivered unintelligible feedback.

Kodak's efforts to gain control of the distribution and processing of its products therefore were spurred by the realization that direct feedback at consumer level would assist the company to design marketable products and meet quality, packaging, and delivery standards. "If we can meet the standards here, said Sieg, we can do so anywhere in the world". By being here we force ourselves to be competitive in every way".

Acquiring a Division Japanese Style: Nagase

The first thing Kodak had to do was to gain control of the distribution and processing of its own products; the direct feedback at consumer level thus obtained would assist the company in designing marketable products and meeting quality, packaging, and delivery standards. "If we can meet the standards here," says Sieg, "we can do so anywhere in the world." By being here, we force ourselves to be competitive in every way."

Nagase Sangyo had been importing Eastman Kodak motion picture film since 1922. Kodak and Nagase Sangyo subsequently resumed their relationship after World War II. In 1960 the Japanese government requested Kodak to import via one point so that they could track Kodak. So then Kodak selected Nagase as primary distributor in 1960. In 1984, Kodak decided to change its operating methods. It was satisfied with Nagase: it handled most of Kodak's photographic business units. Unlike most other acquirees in Japan, Nagase & Co. was not a company in distress or an obvious target for take-over. As a major chemical trading firm with an annual turnover of US\$5 billion, Nagase provides its employees with lifetime employment guarantees, and company loyalty runs deep. It is still majority family-owned, although shares are traded on the First Section of the Tokyo Stock Exchange. Kodak's products were important to Nagase — roughly 20% of sales and 40% of earnings — but Kodak was in no position to issue an ultimatum. It required a year of painstaking negotiations (carried out largely on a one-to-one basis) to persuade Nagase to sell out one of its most profitable lines. A sizeable part of the pressure came from a credible underlying threat; Kodak was perfectly able to set up a parallel competing organization that would cut directly into Nagase's sales without compensation. Although details of the deal are not public, Kodak ended up paying a significant premium, since Nagase was not a willing seller.

The execution of Kodak's successful deal had to be diplomatically engineered to avoid the appearance that Nagase had sold out; this could have had a very negative impact on employee morale and share price. Rather than going for outright ownership from the start, Kodak was content to set up a 50:50 JV — Kodak Nagase — in August 1986, into which Nagase immediately transferred all the employees of its photo products division — Kodak only gained majority ownership — 51:49 — in August 1988 and changed its name to Kodak Japan Ltd. Maintaining *tatemae* (appearances) was essential to the success of the transaction.

Even after settling the substantive aspects of the deal, implementation has required delicate salesmanship and management of integration. Although most of the employees transferred to the Kodak JV had some loyalty to Kodak, having serviced the product line

for years, it took six months of tough negotiations with the company union, and considerable expense to bring employees around and assure their co-operation. Generous bonuses were required to compensate for the dislocation and perceived insecurity associated with working for a foreign company. To transform the organization from a conservative trading and service company into the aggressive arm of a technological leader, changes in management personnel were unavoidable, and after a year of losses, Kodak is only now starting to reap the benefits of restructuring — these should multiply as cost-cutting continues and sales grow on the back of Kodak's high-profile advertising and marketing.

Buying a new product capability: Kusuda

Kodak was in much stronger position with its business systems distributor; in high-tech office automation area, it was clear that a minor local company such as Kusuda would not be able to make the necessary investments to develop the market. Kodak needed new products for the Japanese market — such as copiers capable of handling standard Japanese paper sizes — and Kusuda would have relatively little to contribute in applying Kodak's world-class technology. Although Kusuda's employees were not overjoyed at being acquired, Kodak met relatively little resistance; the employees generally recognized that the company's (and their own) growth potential could only be enhanced. Indeed, since Kusuda's integration into Kodak Information, growth has been excellent and new records set each year.

This deal was also less expensive and Kodak paid only a reasonable market price plus a small premium, although it acquired none of the company's fixed assets — these included some very expensive real estate in metropolitan locations. Since these properties had more value for the family owners, and leasing was perfectly adequate for operational purposes, both sides were satisfied with the arrangement. Kodak was able to limit its investment to the desired target, while the Japanese family owners held onto cherished land and received a steady stream of rental income, rather than having to face exorbitant capital gains taxation at the time of sale. This type of arrangement might set a model for structuring foreign acquisitions in Japan in the future.

Nurturing relationships by direct investment: Chinon and Nippon Systems House

To nurture relations with local suppliers and to gain a position in related businesses, Kodak has also invested in two other companies:

- Chinon, a camera manufacturer, was formerly an OEM supplier. Kodak obtained a 15% stake through a third-party share distribution and open market purchases to become the single largest shareholder. By placing a representative on the board and a resident in the factory Kodak hopes to monitor and influence the course of technological developments on the electronic camera front and to track Japanese developments in manufacturing technology.
- Nippon Systems House, is a software producer. Kodak has taken a 10% stake in this small (100 employees) unlisted firm, where they are co-operating on joint development projects in medical diagnostics at the Kyushu facility.

"Multistrategic push"

While Kodak has successfully used both acquisition and equity participation to expand its Japanese position, it has not excluded the familiar methods of operating new wholly owned subsidiaries and JVs. Its full-court press has led the company to employ techniques and organizational structures in a flexible fashion — any possible and proven method is being attempted, including:

- Kodak Imagica, a 51:49 JV in photo-finishing, to ensure that Kodak's products will not face quality problems or price discrimination at the photo-development stage;
- Strengthening the existing 50:50 JV between Kodak's subsidiary Verbatim and Mitsubishi Kasei for the production of floppy disks in Japan; and
- A green field R&D centre, in which Kodak has built up a staff of 120, located at the attractive new Kohoku new Town high-tech community near Yokohama.

Ultimately, Kodak would like to increase its capacity for manufacturing mainline products locally. This would be valuable in learning Japanese production techniques and would provide experience with managing a full business in Japan — from R&D and production, to sales and service. Such ambitious projects will take money and a long-term commitment at the highest levels, but given the surprisingly rapid turnaround in Kodak's Japan position since 1984, Sieg expects these to be forthcoming.

Most acquisitions by both foreign and domestic firms in Japan begin with a period of

minority participation; and despite a shift in management control, many never pass the 50% threshold. As has been discussed, an outsider acquiring a majority stake in a firm with which it has no previous relationship invites a negative response from existing managers and employees, who are in powerful position to block bids they perceive to be unfriendly. For this reason, acquisitions that continue progressively, beginning with small minority share, are more typical; once the acquirer's commitment to the firm has been tested over a time, then additional shares, convertible bonds, or warrant bonds may be issued.

According to Abegglen and Watanabe (1990) there is relatively little direct selling of shares: with a large portion of existing equity in the hands of stable shareholders, it is usually necessary to issue new shares if the "newcomers" stake is to grow without driving up share prices. Following each increase in ownership, the acquirer's motives are scrutinized and the relationship reaffirmed, a process which — with the exception of urgent rescue circumstances — can take years, and even then may not culminate in the outsider gaining a true majority stake.

Promotion

Although its competitors Fuji and Konica are committed to heavy promotional expenditure abroad, Kodak has outspent both by three times over. It has erected huge US\$1 million neon signs as landmarks in major cities; the one in Sapporo, Hokkaido is the highest in the country. The company has also sponsored sumo wrestling, judo and tennis tournaments, not to mention the Japanese team in the 1988 Seoul Olympics.

Kodak also met Fuji head on by spending US\$1 million on an airship, a tactic that had previously been used widely by Fuji. The aircraft was rumoured to circle Fuji's headquarters from time to time, and when the media picked up this story, Fuji deemed it necessary to commit even larger sums to bring its own airship back from Europe to carry out some face-saving publicity for its own communications strategy. As a result, Kodak's brand has now attained immediate recognition with more than 50% of Japanese consumers. Over a five-year period this has triggered increasing market share of 1% per annum—currently 15% of the amateur photographic market.

Corporate commitment

The payback of Kodak's investment in Japan is viewed as long term: None of Eastman Kodak (Japan) Ltd's success would have been possible without corporate headquarters commitment. This commitment was consciously directed towards overcoming

parochialism, right down to the basic decision as early as 1984 to use Japanese and English (as opposed to English-only) packaging. Nevertheless, it was not until 1988 that Kodak could claim to have responded to Japanese consumer preferences by offering a special product, Kodacolor Gold. The subsequent impressive results must be seen in terms of the inertia that had to be overcome. As Sieg said, "I am not under pressure to turn a bigger profit this year or next year, but I am under pressure to develop a strategy that will improve Kodak's position here in Japan."

Sources: Interview material, corporate documents, corporate video, Abegglen and Watanabe, (1990).

In many respects, Kodak is untypical of American companies, since most MNCs are tied to the concept of reporting quarterly returns showing steady growth, and this works against long-term market development. The key to the problem lies in the way that overseas opportunity, and its exploitation, is prioritised. Frequently, executives' remuneration packages are based on the quarterly review of performance results; hence, managers find themselves tied to short-term financial objectives. Moreover, in Japan, the major investments required to build businesses are unlikely to produce rewards within the time horizons of the MNC's current president — they are likely to be such a cash drain that they appear to be anything but rewards. So, why should company presidents sacrifice bonuses to help their successors?

The answer is that to penetrate the Japanese market, companies must learn that Japan places great emphasis on long-term relationships: Many of the major consumer successes have occurred over long time periods, and enterprises such as Nestle have been in the market for some 100 years (see Box 5.11). Nippon Lever has had a manufacturing presence in Japan dating from 1910 (its new form dates from 1963); Johnson & Johnson (Japan) has been operating in the Japanese market as a wholly owned manufacturing business for 18 years, since buying out Cornes, a subsidiary of Wheelock Marden. On the other hand, long-term presence is not unique to Japan: The positions of Toyota and Nissan in the US have not happened

overnight, but rather have taken them 20-30 years to develop. Only their mode of entry has differed, since mergers and acquisitions (M&A) activity in the US have always been much easier than M&A in Japan, it not having been an accepted mode of business practice; furthermore, most Japanese companies are not for sale (Abegglen and Watanabe, 1990:8).

Interviewees confirmed that to develop consumer brands in Japan, a long-term strategy is necessary: it is necessary to break into the relationship network, and make the time and investment commitment to learn about distributors and their sales forces, and to develop the crucial relationships between sales people and their customer base. These ties are not made overnight.

5.2.6. DISTRIBUTION

Distribution is probably the most frequently cited obstacle encountered by foreign MNCs in Japan. Japanese manufacturers and distributors place a great deal of importance on developing their relationship with consumers to ensure both stable prices and long-term supply; by contrast, Western companies generally rely on price competitiveness and product performance. Some executives interviewed made the point that the establishment of a distribution system should even precede the existence of a marketable product; however, the balance of views lay in favour of first ensuring that the product suits Japanese consumers, and then determining how to win distribution. The basic maxim that products must be accepted by the consumer is very true in Japan, and cannot be emphasized strongly enough.¹⁶

As has been discussed in this thesis, strong interpersonal and commercial relationships exist between intermediaries in the Japanese distribution channel. Penetrating these structures is not easy. However, various foreign MNCs have

¹⁶ See Boxes 5.1, 5.10, 5.11 and 5.13

successfully built their own networks.¹⁷ Western companies may rely more on price competitiveness and product performance, but several foreign MNCs commented that the difference in approach is not as great as many people believe. For example, the chairman of Nippon Lever KK.

Good relations are extremely important and we try to foster good relations but I've never found a wholesaler yet who handles our goods for love or loyalty. He does it because it is a business proposition.

As we saw in Chapter 2, there is a sound financial reason why the distribution system is so relationship-based and that is that most Japanese companies operate with little equity capital and much debt (Kanabayashi, 1978). In other words they depend on each other for extended financing. Success Japanese-style owes much to the close co-operation between manufacturer and distributor. Major retail chains will use the wholesaler as principal warehouser and supplier (they rarely create their own warehousing and replenishment facilities) and since a number of these arrangements operate on an exclusive or semi-exclusive basis, the buy-in costs are increasing to such an extent that only successful companies can afford to meet them. However, information technology may create savings, cause some rationalization, and ultimately reduce the mark-ups.

While it may be true that discounting has played a relatively less important role in Japan in the retail quarter than in many western markets the situation is changing as this thesis is being written. Japanese consumers are engaging in increasing numbers of trips abroad, note is taken of the popularity of discounting concepts such as Toys R'US; and, as a result, waves of change are being propagated. While foreigners often moan about the cost of doing business in Japan, their chief complaint usually concerns the country's retail system. It is true that Japan's shopkeepers are small and weak; they are reluctant to stock the goods of newcomers

¹⁷ See Box 5.5

for fear of angering their principal Japanese suppliers.

Foreign firms that do break in often manage it by piercing these barriers with irresistibly sharp prices. Now a small group of Japanese discounters has started shaking up traditional retailing. Among the most aggressive is Bic Camera, small and obscure but growing fast. Bic's president, Ryuji Arai, opened his first camera shop in 1978. On his first day he took in only ¥730 (£4.30). Now his firm sells ¥300m-worth of goods every day (Economist, 1993b). His empire is controlled from the ninth floor of a Tokyo store that did not exist until September 1992. Bic has seven shops with more planned. The company has increased its floor space five-fold in less than two years. This has been achieved in a city where traders from Mercedes to McDonald's are encumbered with the world's costliest property. With traditional department stores and supermarkets under pressure, a number of mainstream retailers are starting to operate in ways that make Bic's style appear less radical.

More traditional stores are beginning to adopt this approach as well. By purchasing direct from manufacturers, Japan's more dynamic retailers are forcing down prices. This is true even at Daiei (Japan's largest supermarket chain), which stresses its big-company obligations to its traditional wholesale partners. Despite that, Daiei imports a growing share of its goods direct from cheap foreign makers. In October it even founded Japan's first wholesale club. For ¥3,000 a year, the club's 98,000 members drive to Daiei's warehouse and pay wholesale prices (Economist, 1993b).

Nevertheless, many foreign companies adopt an approach to Japan that Japanese distributors term "export happy". As George Maruyama, the president of Chuo Bussan Corporation explained:

Frequently, principals approach me. They have statistics. They come and talk to me and I say to them, "Why do you want to come to Japan? Do you intend to stay, or are you looking for short term profit?" If it is the latter case, I say "forget it, it is not so easy." The larger the country you go to then the more difficult it is. Because it is the number one in their neighbourhood, they think it must sell elsewhere.

Our companies will not deal with any export happy company. I say if you want to do business with me you must tie for the long term, and for me long term means 10 years.

This perception of "export happiness" is a significant restraint for foreign MNCs, but the message is very clear. Western companies are expected to commit themselves for what by Western standards must seem an interminable period, and — to exacerbate matters — risk losing control of some key strategic marketing variables. It is a "Catch-22" situation. Without distribution, products do not reach the store shelves and consumers are unable to buy; however, on the other side of the equation, an experienced distributor knows that establishing a new brand takes time and effort, and returns are slow to develop.

Distribution is not an insurmountable problem, as is clear from the successes of many of the companies interviewed. However, successful firms are often major world players in their respective arenas; smaller companies with fewer product advantages will not win distribution so effectively. One of the companies interviewed, Amway, represents a good example of how a particular company solved its distribution problem (see Box 5.5).

Box 5.5**AMWAY: Winning Distribution in Japan**

A company with no direct customers must have an excellent distribution system if it is to succeed in selling its product — and this is precisely how Amway (Japan) Ltd has boosted sales. Amway has over 1 million distributors world-wide, half of which are in Japan. Since starting operations in Japan in 1979, Amway's has achieved great success selling detergents, cosmetics, cooking-ware and nutrition products. This has led to tie-up requests from other companies seeking to distribute their goods through Amway's established channels.

Automated Fulfilment

Amway imports approximately 65% directly from its manufacturing plants in the US, clearing customs and other paperwork before storing them in three computerized warehouses in Tokyo, Kobe and Fukuoka. All its products are distributed from these three warehouses to destinations across the country using a paperless pick-line and order system developed entirely in-house.

Orders, received by letter, telephone, fax or computer modem, are sent on-line to the warehouse computer, which translates it into a bar code printed on a pressure-sensitive label and placed on each box. The box moves along a conveyor belt until it reaches the correct warehouse storage area for the ordered product, where an operator reads the bar code electronically and fills the box with the required quantity. The completed order then moves along to the packaging area where it is dispatched to the distributor who made the order. Packaged products are then sent from these distribution centres to sales people known as direct distributors (DDs). Direct orders from the local Amway office can only be made by DDs who then sell these products to their own customers and groups of down-the-line distributors. Products are sold to consumers at about a 30% mark-up.

This successful formula was first used by Amway in the US more than 30 years ago, and then taken to Europe, Australia and Asia. "Consultants told us we wouldn't succeed in Japan," says marketing department manager Jerry Rosenberg. "They said the closed nature of Japanese society was not suited to our selling methods. But we have proved them wrong." By taking advantage of the so called "cultural" propensity of the Japanese to create networks and with the majority of its sales going to middle class

consumers that have high disposable incomes and savings, Japan has proved a lucrative market for Amway: total annual sales in 1990 (ending August) stood at about US\$680 million.

Key Role for Distributors

A major factor in Amway's strategy and success are the distributors upon whom the company relies to spread its products throughout the marketplace. Described as "self-employed independent business men and women," they are not conventional distributors but people who sell consumer goods on an individual basis to friends, relatives and any approachable buyers. Currently, there are some 700,000 distributors for Amway.

Distributors can achieve higher sales volumes by increasing the number of individuals in their groups. They are also offered financial and travel incentives to encourage them to enlarge their groups and increase sales volume. Distributors have the incentive of becoming DDs and forming their own groups of secondary sellers. Since the firm has no direct recruitment drive, distributors are responsible for attracting other individuals to build the sales team. The company provides starter kits costing ¥8,240 (inclusive of consumption tax and fully refundable) to those expressing interest in distributorships.

Different promotion techniques are used for different countries in Asia; however, Amway likes to consider itself a family outfit and encourages a similar atmosphere throughout the company. This fits well into Japanese society, where adherence to family principles is paramount and the ideal of "family" is very strong. Thus, although an Amway meeting in Japan to discuss company strategy might have a business-like atmosphere, the air at new product introduction meetings is more family-like.

In Japan, Amway's own simple distribution system is greatly helped by the excellent *Takkyubin* or small package delivery system available in the country. The *Takkyubin* infrastructure is of "world standards" and Amway makes full use of it to ensure that products reach DDs quickly. "This excellent delivery system," says Rosenberg, "has made our life much easier in keeping costs down and getting the product to the end customer cheaply and effectively."

Learning From Japanese Lessons

The Japanese market has had a great influence on how Amway has approached other markets. Products have been reformulated with better multi-language packaging to meet local demands and to broaden lines offered. Although Amway generally tests all its products in the US first, Rosenberg notes that even their American offices have come to

recognize that if you can satisfy the Japanese consumer there is a good chance the product will succeed elsewhere. Lessons learned in the challenging Japanese market are therefore being adapted into Amway's global marketing strategy: for example, use of local companies when difficulties arise in meeting government regulations for certain products. Amway used a Japanese company for consignment production when it met with problems meeting local regulations on pigments and cosmetics. It has also worked with major domestic manufacturers to expand its production lines. An electromagnetic cooker was produced with Sharp Corporation and tumblers with Hoya Corporation.

Amway's sales method has two major advantages in market entry and penetration. The first is the relative lack of marketing risk it must undertake with individual distributors undertaking the burden of the cost and time required to increase sales and cultivate their own down-the-line networks. The second is the harnessing of an unfettered distribution system which is a great advantage in Japan where distribution has been the downfall of many domestic and foreign companies.

Amway's success in Japan would appear to be the successful marrying of Japanese "cultural" habit of networking with its simple but very effective sales methods. By providing the right motivation to its direct and down-the-line distributors and pushing its free enterprise principles, the firm has built an efficient operating method in a different — and difficult — environment.

Source: Interview material

Many major foreign MNCs such as Procter & Gamble,¹⁸ Nippon Lever and Nestle¹⁹ all work within the traditional Japanese system. Although presenting many difficult challenges to foreign MNCs, the Japanese distribution system has its positive side. For example, with the importance of small retail outlets in Japan facilitating small-unit purchasing by consumers, retailers frequently need small deliveries from their suppliers. This situation has brought about a highly efficient small parcels' delivery service, one which Amway has harnessed to the full via its 350,000-strong, direct selling force, which makes the final delivery to the

¹⁸ See Box 5.13

¹⁹ See Box 5.11

customers. Small-unit purchasing by consumers is one of the factors that has enabled the vending business to grow as it has. Consumers are inclined to try products when they are easy to obtain from vending machines. Japan boasts one machine for every 22 people. The USA has one for every 46; the European Community only one for every 200. With a virtual absence of vandalism and petty crime in Japanese society, Japanese machines are also more productive. Sales per machine are almost two thirds higher than in the USA, because the Japanese machines sell high-value products, such as whisky, as well as the usual Coca Cola and chewing gum. Vending machines are also used for more "off-beat" applications such as flowers, pizza and matchmaking. If companies can win access to them, such distribution channels are a convenient way for consumers to try out new products.

Given that local knowledge will always be superior, MNCs must be prepared to invest plenty of time, energy and resources in the Japanese marketplace. Market Makers Inc., for instance, advises relatively small foreign companies about local market entry strategies. One of its successes, a small US-based spices producing company had no well-known brand on which to trade, but MMI matched it with a Japanese food service wholesaler attempting to import Western goods without using the *sogo shosha*. The wholesaler was expanding aggressively, steering itself away from secondary or tertiary wholesaler status by acquiring other small distribution companies in Japan, until it had finally built up a 52-branch network. After some reformulation of the product and its packaging to suit Japanese tastes, a significant route into the market was mapped out.

This distribution experience is quite typical. Each of the companies interviewed had succeeded in forging functional distribution arrangements; either by traditional or by unorthodox routes. The common — and key — factor is a willingness to commit for the long term.

Nevertheless, as interviews confirmed, such obstacles that do exist are not

necessarily discriminatory only to foreigners — but to any newcomer. Nippon Lever offers a good example of successful distribution strategy. It has learned how the Japanese distribution system works, and has attempted to get the best out of it by using three distribution routes: one each for detergents, consumer foods and industrial foods (primarily fats) for the extensive bakery trade. One of Nippon Lever's major difficulties is that there are different wholesalers for each of its brands. At the wholesale level there is a high degree of specialization and very little synergy, even within the food sales force. For example, if a wholesaler specializes in ice cream distribution, there is no point in the salesman talking to him about margarine.

To serve its distribution system, Nippon Lever has three separate sales forces; two consumer, and one industrial. Within the consumer foods' sales force, there is a degree of specialization on a number of client companies, but the firm is taking advantage of opportunities in the distribution sector to move towards a situation where it eliminates specialization by its salesmen. In the retail area, there is a high degree of synergy because salesmen can talk to any single retailer about most of Nippon Lever's products, something that cannot be said of its wholesaler sales efforts. The retail salesmen negotiate mainly with retail headquarters; but along with that, Nippon Lever has a merchandising force that supports the sales effort within supermarkets.

Nippon Lever has a commercial relationship with approximately 2,000 wholesalers but, like most other markets in Japan, personal relationships overlie the commercial ties. Great efforts are made to formalize connections between Nippon Lever and the people who work for it, and while the chairman cannot know each person in the wholesaler network, links can be made. Under its company structure, the president (who is Japanese) and the chairman (a European) exchange roles, in other words they attend funerals, weddings, etc. The president concentrates on external relationships by spending much more time with sales directors and on visits

than would normally be the case for his counterpart elsewhere. For instance, if a wholesaler's daughter gets married, the sales director and president may be invited, and so on — personal networking is crucial.

Despite the differing routes and intermediaries through which Nippon Lever deals, its consumer products are reassembled at the retail level, being sold primarily in supermarkets. In the drive to offer more service there is, however, a slow development of what could be called a general grocery wholesaler, that is, one who handles a wider product portfolio to service grocery outlets. This development may be accelerated as a result of the US Strategic Impediments Initiative (SII) and resultant political pressures, but it is likely to be a long slow process.

In the food sector in the US or Europe, the distribution channels often go directly from manufacturer to the retailer. Accustomed to this arrangement, some foreign companies have therefore attempted to circumvent Japan's more lengthy distribution channels, often with disastrous results. Moreover, many Japanese consumer goods' companies have direct investments in the wholesale trade; consequently, the dividing line between a manufacturer's regional warehouse and sales office, and that of an independent wholesaler, can be blurred.

If a foreign MNC tries to build up its own sales force at the same time as it is arranging physical distribution, it may be that the dual effort will tax its financial and management resources, as well as damage the delicate balance of the relationship with its wholesalers. In line with its practice in other markets, Gillette established its own sales force in Japan around the mid-1960s. Then, the trade accepted that move, but when Gillette reduced the number of A class wholesalers through which it intended to deal, the firm ceased to enjoy "enthusiastic" trade support.

This situation persisted through the 1970s and 1980s, making it very difficult for Gillette to develop its business. It required a new president (Norman Roberts), with considerable diplomatic skills, to persuade the trade that such short-term tactics

played no part in the Gillette armoury of the future. Gillette then acknowledged the wholesale trade as partners in the business, conveying the idea that Gillette wanted to work with them, listen to them and learn from them. The recovery of Gillette's distribution position was considered impressive by several interviewees.

An example of how a foreign distribution concept has been carefully Japanized and positioned is that of Seven Eleven. It has developed its position by striking synergistically at the heart of the Japanese distribution system: the "mom-and-pop" stores.²⁰

Box 5.6

SEVEN-ELEVEN: Convenience the Japanese Way

With some 13,000 outlets located in 22 countries around the globe, 7-Eleven is not only the world leader in convenience stores, but also the standard by which other chains are judged. The original 7-Eleven retail concept, however, which was founded by the US company Southland Corp., has been taken to new heights of efficiency and profitability by Seven-Eleven Japan Co. (the Japanese company spells out the digit 7) and offers key lessons for foreign consumer MNCs targeting the Japanese market. Ito-Yokado Group, a large Japanese grocery conglomerate, owns a majority of Seven-Eleven Japan Co. (SEJ). SEJ originally operated under an area license agreement with Southland Corp. of the US, paying royalties to the American company for the use of the Seven-Eleven name. However, Southland has recently been so heavily in debt that it asked SEJ to make its payments directly to the Japanese leasing company that was lending Southland money. In 1990, SEJ acquired Southland's Hawaiian chain of 58 stores and in second-quarter 1991, SEJ and Ito-Yokado agreed to purchase 70% of the Southland Corp., bringing more than 13,000 outlets world-wide under Seven-Eleven Japan's control.

The Japanese operation has thrived. Since its start in Japan in 1974, the chain has opened 4,012 stores nation-wide (to February 1990) and is growing at a rate of more than 300 stores a year. In the fiscal year ending February 28, 1989, Seven-Eleven's made up only 6.6% of Ito-Yokado's revenue, but 34.9% of its operating profit. In 1989, sales at Seven-Eleven Japan rose 14.5% to US\$5.4 billion.

²⁰ See Box 5.6

Fundamentals of Success

The key to this success story is that SEJ has developed a franchise system to revitalise Japan's "mom-and-pop" stores — the major Seven-Eleven franchise holders. The franchises manage themselves independently under 15-year contracts (the first ones came up for renewal in 1989), with SEJ providing management advice, as well as technical knowledge and equipment. The company strives to raise overall profits by using a system that calculates franchise commission based on individual store's gross margin — the higher the store's turnover the bigger the commission the franchisee receives. Seven-Eleven has also adapted to changing Japanese consumer needs by reforming the traditional distribution and store information systems, as well as offering a fast-selling selection of merchandise.

One of the principal components in the firm's success and rapid expansion has been a distribution system that combines a market-dominating strategy with the latest in technology. Seven-Eleven's fundamental strategy makes distribution more efficient by eliminating distance between distribution centres and the stores. Clusters of 50 to 60 stores are opened together in relative proximity to a centralized distribution centre. This organization gives Seven-Eleven a high-density market presence, preventing competitors from entering an area. It also improves brand awareness, raises efficiency of franchise-support services and advertising activities, and works well with Seven-Eleven's centralized distribution system to keep delivery costs down.

New Attitudes to Inventory

In 1974, every store depended on the telephone to order stock, which required a great deal of time and resulted in excessive paperwork and careless errors. This process was improved in 1975, with the introduction of computers that read order numbers in bar-code form from ordering terminals. Data was then sent to a distributor's computer over telephone lines. In 1979, SEJ established an on-line network linking the head office, stores, and vendors — the industry's first value-added network (VAN).

In 1982, a point of sales (POS) system was introduced, complete with POS cash registers and terminal controllers.²¹ The electric order booking (EOB) system, which

²¹ All stores have in-store Point of Sale (POS) computer systems to gather information. These machines record when each particular item was sold, and are equipped with keys that enable the cashier to input information on customer buying habits, which products are fast sellers, and the times products commonly sell out. All data is fed into an on-line information network, which is used by head office to determine product sales patterns. The computers also

features a computer linked directly to vendor and head office terminals, was also brought into operation. In 1985, SEJ unified the POS system to assist in gathering sales information on buying patterns throughout the chain. Since then, SEJ has also introduced bill payment services for electricity, gas, and insurance policy payments, as well as prepaid cards to make purchases faster and easier.

The backbone of Seven-Eleven's formula for retail success is that lower inventory means higher sales and higher gross margins. Previously, the retail industry believed that from a merchandising point of view lower inventory would result in fewer sales opportunities. High inventory turnover was considered necessary to provide the best merchandise mix of popular items. However, stock overflows prevented optimal merchandising and made accurate sales and trend analysis difficult.

Retailers used to demand perfect quality from suppliers, and so accepted sky-high prices. Prices now matter more, so retailers are less inclined to reject a bruised fruit or a suit with one stitch missing. Armed with point-of-sale computers that track customer habits, bigger chains as Seven-Eleven Japan now believe they know precisely what will sell and when. So, like the discounters, they can release suppliers from the obligation to take back goods in exchange for keener prices. More traditional stores are beginning to adopt this approach as well. In 1991 Seven-Eleven's parent Ito-Yokado became the first big general-merchandiser to switch entirely to 'risk merchandising'.

Seven-Eleven has implemented a scheme that allows staff to determine quickly which items are slow-moving, enabling the chain to minimize total stock. This is achieved by an item-by-item control basis on a computer network. By recording the sale of every item immediately, the store, the combined distribution centres, the head office and suppliers all know the exact inventory of each outlet. This system also permits Seven-Eleven to merchandise a fast-selling product in reaction to strong consumer demand — for example, at a certain time of the day. As proof of this strategy's success, Seven-Eleven points to the fact that average per-store inventory has dropped ¥2.8 million over

allow store staff to make ordering decisions based on extremely accurate information. Moreover, head office can use it to develop chain-wide merchandising and distribution policies. Vendors and suppliers can also assess demand and make up realistic production, inventory, and distribution plans to fit in with the new information.

Staff at the store use a graphic personal computer to interpret the information gathered by the POS system and show which items are low in stock. The employee then places orders into the on-line information network through the Electric Order Booking (EOB) system.

the last 10 years (from ¥7.74 million per store in 1980 to ¥4.96 million in 1990), while average daily sales per store have soared by ¥130,000. This indicates a corresponding improvement of 3.6 points in average gross profit margin.

Getting Product to Market

As with most convenience stores, SEJ's outlets average a mere 100 square metres of floor space and carry almost 3,500 various items. Obviously, little space is available for storage. Turnover is brisk: Seven-Eleven is Japan's largest food retailer and had more than 1.2 billion customer visits in 1990. SEJ has tackled the problem of distributing products to its chain of stores by developing the first small-lot, frequent delivery distribution system in Japanese retailing. The main steps in the strategy are as follows:

- Major suppliers deliver products, based on the overall requirements of the stores clustered in a certain area, to one of several regional combined distribution centres. They can then forward items to individual stores from any number of the suppliers simultaneously. Before this plan, Seven-Eleven stores had to order from an average of 70 suppliers who delivered items to individual outlets — a system that kept supplier costs high. Major suppliers now deliver products to one of the distribution centres, which then deliver to several individual stores in one trip. Seven-Eleven outlets now deal with less than half the number of suppliers they used to.
- The four main categories of products are: chilled, frozen, medium-temperature, and room-temperature products. A four-temperature delivery process ensures that each type is fresh when it arrives at the stores. Four kinds of truck, each with storage capabilities to match the relevant distribution centres, are dispatched with the desired stock.
- Deliveries are carried out three times a day: before 3:00 am in preparation for the morning rush, before 11:00 am in time for the lunch hour peak time, and before 7:00 p.m. ready for the evening rush after other stores have closed.

Seven-Eleven Japan recently introduced more new equipment to provide improved merchandising data that will assist stores to place orders more efficiently. Introduced in the November of 1990, the hand-held Graphic Order Terminal (GOT) is the pillar of this system. Store staff use the GOT, which has the ordering capabilities of the present EOB system, plus the added function of ordering advice presented as text rather than graphics. Additional plans for the digitisation of the network circuits linking individual stores, the head office, and suppliers, will further improve the speed of data processing.

The efficiency of the distribution system has not only lowered delivery costs, but has also allowed Seven-Eleven to cut down on required storage space at outlets and utilize the space to display more items. An average SEJ store is half the size of its American operation yet sells twice as much.

Source: Reid (1991)

The manufacturer level sees fierce competition for distribution. Moreover, according to McKinsey and Boston Consulting Group, if an opportunity is too big for any one firm then subsets of Japanese competitors tend to regroup to tackle the market opening collectively. Overall, distribution costs are high, since the players compete aggressively on the advertising and sales promotion fronts to support their hard-won positions. According to Nippon Lever's Chairman, distributor rebates, small lots and high frequency deliveries are all characteristics of this competitive situation. Most interviewees stressed that while many foreign marketers are undoubtedly familiar with these elements as individual factors, the intensity of competition in each of these spheres produces a combined effect that is not only unfamiliar; it also translates into a high end price for the consumer.

One major problem regularly encountered by MNCs is that foreign imports are often channelled through the *sogo shosha* (Japanese trading companies), which in many cases take sole distribution rights for the product and then appear to stifle its development. Consequently, the *sogo shosha* are much criticized for making promises to promote products, and then reneging. On the other hand, there are few agents or distributors anywhere in the world who do not promise more than they deliver to add a desirable line to their portfolio. This perspective renders somewhat naive the ACCJ's (1989) argument for government intervention to force the *sogo shosha* to behave differently to distributors world-wide.

Strategies, discussed in detail later in this chapter, show that distribution — although difficult — is definitely not impossible. An example follows in Box 5.7 of

a company that struggled and adapted its distribution opportunities.

Box 5.7 Heinz Ore-Ida

Setting up a Consumer Products Operation

Ore-Ida is the frozen food division of Heinz. This company was established in Japan around 1983. By its own admission the original team of two, according to its Ex-President, knew nothing about this market except:

It looked like there was a real opportunity to sell our products here.

The major product was frozen potato products -- chips. When the management landed they assessed the market and observed there was no branding in the product category, there was no company trying to turn what there seems to be a commodity into a brand and create brand differentiation. Even some differentiated products in that category had a lowly image, except those participating in the fast food industry. By that time, the fast food business had started to grow very well and was quite focused. The Japanese consumer appeared to like fast food. It was a high interest category and when Ore-Ida researched consumers they found that fast food was a product that appealed to consumers of all ages. The key issue for Ore-Ida was to differentiate the product. After exploratory research Ore-Ida concluded that the distribution system was not at all complicated. It had expected 3 or 4 layers of distribution but the frozen good industry was still relatively new so it was more straightforward than it had anticipated.

We found as most people do when they come to Japan everybody tries to tie your hands, they say "I can do everything for you". You know Heinz had been working with Mitsubishi Trading Co. for many years before I ever got into the business and they were our trading partner here. They had exclusive rights to our food service business and we were supplying Kentucky Fried Chicken of which they own 50%, so as Kentucky Fried Chicken's business grew Ore-Ida's business grew.

Corporate management at the US end was happy about that but it had no idea what other businesses were doing in Japan and they couldn't understand why Mitsubishi was not really going out and pushing these products to other fast food outlets. Mitsubishi felt that it had the exclusive rights for its own business and they had no vested interest in establishing the business with the competition no matter how good the product. In the distribution business Mitsubishi own one of the largest wholesale grocery companies in

Japan — Rioshoku. Mitsubishi had been selling Ore-Ida's product through that channel and failed to comprehend the causes of Ore-Ida's complaint. The Ore-Ida Ex President made the point that:

We had been doing business for 8 or 10 years on the retail side and the business was still very small so when we first came to the market to investigate whether there was a good opportunity in Japan we had to establish product differentiation. We had to look at the distribution system which turned out not to be a problem but we were tied to a group of people [Mitsubishi] that would only offer a portion of the available distribution

We had stumbled on to a cooking method that made sense and determined that everybody had a cooking appliance; a toaster oven in their homes, so we identified a very simple distribution system and visited the retailers. The retailers told us who their suppliers were. We approached them and said "if we come with a multi-million dollar advertising programme differentiating the product, an aggressive sales force, other sales promotional activity and pricing that is reasonable what's your reaction?" Big wholesalers and retailers replied "Of course I'll buy your product."

Most people come to Japan and they do it the other way around by starting with the trading company. It says we can do this and that but they are limiting their contacts in spite of what the sogo shosha tell you, but they are not advertisers, marketers, or promoters with a sales force. They are essentially a way of financing businesses for other people. They can only get you so far.

Ore-Ida's management maintained that it could not tolerate that situation. After further consultation with retailers it determined that it needed more wholesalers. *We went to Mitsubishi and said "Look guys the retailers are telling us that you can't handle it all in spite of what you tell us. The retailers are telling us a different story." So eventually they capitulated and said "Well maybe you're right maybe you do need more". So we wound up with wholesalers that were related to Sumitomo, Mitsui, Mitsubishi, Sanwa, all the major trading operations. We appointed six primary wholesalers in the Tokyo area and we had a network of about 25 to 30 secondary wholesalers and that was as far as we had to go and they were readily identified for us by the retail trade. It worked out very well.*

Most Americans or other foreigners when they come to do business in Japan are unwilling to take the time to dig into all of this stuff. If they did they might find out where the power is. Here, the retailers control an awful lot of what's going on in spite of the trading companies telling you how well connected they are. It is really the retailers that are running the show.

According to the same source, the trading companies' stock in trade is secrecy and deliberately create confusion by telling everybody how different it is in Japan (*nihonjinron*) and thus prolong their ability to control whatever category of products that they are trying to deal in.

The key problem is those new companies attempting to gain entries into the Japanese market are not usually willing to set up an affiliate business in Japan and they are attempting to conduct it from an expatriate perspective with control from their own country. They will encounter difficulties since there are very few trading companies that are willing to invest their own money to make a business grow. If you want to have a successful business you've got to come here and do it yourself, dig into it and find out what's going on and so from there. It took us, I suppose, 2 years of initial research and then 1 year in Japan before we even launched our product so we didn't just walk off the boat and then start.

Source: Interview Materials

5.2.7. STAFF

As was alluded to in Chapter 2, obtaining high calibre staff in Japan is an acute problem faced by all foreign MNCs. Interviews confirmed that attracting first-class Japanese personnel is one of the biggest problems facing foreign companies operating in Japan, even though they often offer salaries 20-50% more than their Japanese competitors. "Lifetime employment" is not absolute, it applies primarily to an elite group: primarily male, managerial and university educated. However, employment relationships in Japan are long-term and this long termism in employment has been underpinned by the virtual continuous growth of the Japanese post war economy. As a result, job-hopping is not common. High premiums must therefore be paid to lure qualified workers away from their career positions, and for some individuals no price is sufficient when compared to a job with guaranteed security.

The priority in Japan is to favour local companies; in fact, many Japanese are suspicious of foreign MNCs, and these must therefore concentrate on persuading their potential recruits that they have a long-term commitment to Japan and to the employee. According to David E. Schmidt, the president of Levi Strauss:

It is difficult to get good people; one has to take time and be very selective. Similarly one has to offer a broad perspective to the candidates, you can't just say here's a job and here's your salary.

In his experience, the Japanese candidate looking at a company is evaluating it as an environment in which to live, work and spend the balance of his or her professional career. Such recruits are going to appraise the personality and character of the company; they will consider the opportunities that exist for themselves; and they will gauge whether the company will not just survive, but grow. If there is a perception that it is a non-growth industry, or that the company itself will not grow within the industry, it is doubtful that candidates will choose it. A key factor in the case of Levi Strauss is that it is 140 years old — a company

pedigree that connotes heritage, continuity, and in turn security.

Levi Strauss makes the point that growth is very important in attracting employees. To support growth, there has to be commitment by the company to developing the employee — that is to say training both on and off the job, and education. Such things are very important, and although compensation and benefits carry a certain weight in the prospective employee's mind, they will not in themselves be decisive: decisions are made on the overall package. In other words, a comprehensive package must be made available so that the candidate can evaluate the total working environment on offer. As many of the companies interviewed, Levi Strauss discovered that staff, once hired, will almost certainly stay (turnover rates were down to 1-2%).

Nevertheless, it remains difficult for foreign companies to attract the right sort of employee and firms often have to rely on hiring staff who, for one reason or another, is unhappy working for Japanese firms. This group largely consists of people who do not like the way they have been treated, or the way a company works, and of those who are simply not succeeding within Japanese organizations. Foreign MNCs often encounter problems in persuading expatriates to work in Japan — where living conditions are perceived to be difficult. The interview sources suggested that a source of talent more frequently used is that of locally hired foreigners, who receive roughly the same benefits as local staff, but often couple the expertise of the expatriate with superior language skills.

Foreign MNCs possess an advantage over Japanese firms in that they will recruit people in mid-career — an option, until recently, Japanese firms have rarely considered. Moreover, several Japanese companies have out placement departments dedicated to finding new jobs for staff leaving their firms, and this can be a source of recruits for foreign MNCs. Some firms claim to have reaped success in recruiting second-generation Japanese Americans from US universities (linguistically capable as they are, these, as we saw in Chapter 2, may well feel

culturally isolated), and of course the contact network can also bring rewards.

Philip Morris, for example, has systematically and successfully hired staff known to its existing employees.

One of the most distinctive contrasts between Western companies and those owned or run by managers from an Asian background is the reliance upon family values: employees assume that their company is a corporate family in which their roles may be only vaguely defined; or perhaps not at all. This corporate structure relies upon group effort to solve problems, unlike Western companies' reliance on job descriptions, operating manuals, and control standards. However, there are some signs of change: an increasing number of Japanese is switching companies in search of increased salaries and benefits.

Nevertheless, most changes of job occur within companies and such a tight recruitment situation calls for ingenuity from foreign MNCs operating in Japan, since they cannot expect to compete on the same basis as top Japanese companies. One of the companies interviewed — Heinz Ore-Ida is a good example of a management that took its own initiative and challenged the conventional approach to lifetime employment (see Box 5.8).

Box 5.8

Heinz Ore-Ida's Recruitment Experience

Heinz Ore-Ida management sought the advice of McKinsey and Co. to assist the company in the recruitment of a sales manager. The company was advised to find someone who understood consumer products and could speak English; he would be required to communicate well with the home office and expatriate management. As a result, Heinz went to three of the largest head hunting operations in Japan then and briefed them accordingly.

Heinz was uncomfortable with the available choices. The majority of the applicants had experience with one or more foreign companies, but these encounters had been failures, and even if the applicant spoke good English it was unlikely that he/she had any

knowledge of the frozen food industry — a necessary criterion. Eventually, Heinz decided to change the job specification and asked one of the recruiters to locate a frozen food specialist, regardless of whether he could speak English. In the event, a candidate with 23 years' experience in the business was identified in a fishing company that was in decline and who, quite by chance, also had a background in the frozen food industry. Once hired, he was able to raid his previous company and recruit five or six of the most talented young people. In this way, Ore-Ida acquired a virtually ready-made sale force, but also the less welcome reputation of being a corporate raider.

Subsequently, the managing director of the fishing company called the managing director of Heinz Ore-Ida and requested an interview. The meeting that ensued crystallized some of the key cultural differences between US (Western) and Japanese management. The Heinz Ore-Ida version is:

I went to talk to him. He was perplexed and said, "What are you doing?" I said, "I do not understand." And he said, "Why are you taking all my people? I have spent years training these people, I have built them into qualified managers and you just come in and take them away." I said, "Well you know I have a problem. I have got to build a business and I have to build it fast in order to get the returns my company needs to justify the expense of setting up this business. If I come in here and hire all the young people and spend 10 years having them go through the learning process, what good is that going to do me? I am not going to be around here to justify my own existence."

He could not understand how I could come and steal his people, even if his business was in decline and his company was paying on the 30th Percentile of the food industry at the time. I obtained good people and I gave them a chance to run a branded business with a big marketing budget. These guys that had been frustrated for so long all of a sudden had an opportunity to have some independence and freedom. That was 1984; and now there is an awful lot more personnel movement. Young people are finding out that with the [Japanese] seniority system working the way it has in the past, bringing a group of people in from the same university class at the same time, doesn't give them [the students] anything really responsible to do until about 15 years after they have joined the company. They let the stars rise to the top. That's a tough system; people do not want to wait that long. Within 15 months from the time that we launched our business, we had with a 38% share in the product category. Furthermore, we were driving the category at double digit annual growth.

Source: Interview material

Executives interviewed made the point that staff difficulties also occur at the top level of MNC management: major corporations have their own list of priorities, and frequently the home markets — whether they be Europe or the US — are where the glamour positions are located. Fast-track executives are often reluctant to step outside what they consider to be the mainstream career lane. This can be a significant weakness when cast against the strategic potential of the Japanese market. Yet, major MNCs such as Unilever do not suffer greatly from these problems. Formerly unable to attract the best graduates, it now receives a steady flow of applications from young people prepared to devote their lives to the newly esteemed Nippon Lever. This trend is facilitated by its corporate creed that no-one can manage a market like a local, the "locals" see expatriate management being withdrawn and re deployed elsewhere which enhances the company's attractiveness.

Interviewees frequently mentioned cases of managers that had been required to run foreign MNCs in Japan whose previous experience did not involve the scale of investment decisions common to that country. As the company president of SKB explained:

Someone who has made good in the US by worrying about a US\$2 million advertising budget may not be capable of winning corporate commitment to invest the US\$20 -- 30 million that may be called for to develop the Japan business.

Without doubt, the scale of the Japanese market requires substantial management talent, and persons with real influence in the corporate world are essential. If there is any single success factor for foreign MNCs in Japan, it is head-office commitment both to the huge investments that are usually necessary, and to patience awaiting returns. Managers who head foreign MNCs in Japan must have a "hot line" to the top echelons in the corporation, and an overall vision of what could eventually become a major overseas enterprise. It is not effective to post people who are either insufficiently senior, or who have only experienced responsibility for part of an investment budget but not for any major strategic decision making.

It is also a gross error to make the number one position in the Japanese office into a two or three-year posting. When this does occur, MNCs should be warned that the Japanese support staff will recognize the limits of short-term appointments and simply find ways of limiting the damage the individual might inflict. The point cannot be reiterated too frequently that relationship building is one of the key roles of the corporate president in Japan: if distributors and potential business partners and associates feel they are talking to a company president who has only a year or two of his term to run, they will have reduced faith in the lasting effect of his policies. It is well known that in Japan much of this relationship building centres on networking by way of business entertaining: company presidents of successful foreign MNCs remarked how they initially found it difficult to dine with customers and suppliers almost every evening; however, without exception, they soon recognized the crucial importance of doing so.

The image lingers on that the Japanese market is permeated with invisible obstructions although restrictions have eased. Different interest groups and industry sectors inevitably present different perspectives. Clearly, the sort of view taken by the American Chamber of Commerce in Japan is likely to be well removed from that of US companies that want to do business in Japan but are not yet at stage one. The view is typically taken by foreign concerns already operating in Japan, that having achieved success by working their (usually difficult) way through the system; the problems and barriers of the Japanese market are no greater than those in other Asian countries. It is largely the US-based firms aspiring to secure a slice of the Japanese pie that are currently exerting pressure on the US government to act against Japan under Super 301. It is ironic that these companies are behaving in a similar way to the companies they are complaining about.

5.3. RESPONSES TO MARKET CHARACTERISTICS AND TRENDS

In this section we will examine the responses of the sample companies to the singular characteristics of the Japanese market.

5.3.1. RESPONSES TO THE JAPANESE CONSUMER

Chapter 2.1 outlined the apparent attractiveness of the Japanese market with Japan's macro economic performance relative to its major trading partners. It was mentioned that the wealth of Japan had not, so far, translated to the same extent, into economic benefit for all of its citizens but that the future intention of MITI was that it should. Despite that, it was shown that the Japanese are relatively wealthy and exhibit a propensity to consume on a grand scale and the market for consumer products exists on a scale that deserves consideration by any serious global marketing concern. Yet the view was often expressed by those executives interviewed that foreign MNCs tend to treat Japan with similar importance to that which is accorded Third World markets.

Nevertheless, despite the multiplication of potential payoffs, rising to the challenge of Japan's markets does not come cheap: investment in Japan requires substantial resources and a willingness to commit to long-term relationship-building and market development. This observation was supported by a recent report by the Wednesday Group, a Republican Party congressional body which released details of a study of 340 American companies that showed Japan has the lowest levels of foreign investment per capita of all industrialized countries. The main reason, it concluded, was not the informal barriers but simply the high cost of Japanese land (Economist, 1993a:67). The data gathered for this thesis has illustrated that forward-looking firms that have responded to the Japanese opportunity and have established an early presence in the Japanese market are those now reaping the rewards, although they have often waited a long time to harvest satisfactory returns.

It was also shown that while Japanese consumers may share a propensity to

consume many different varieties of product, they are highly discriminating. According to interviewees, they are probably the world's most discerning consumers. This is a lesson which foreign companies have been forced to learn, irrespective of whether they are involved in marketing fast moving consumer goods or luxury durables. However, foreign companies, far from being disadvantaged, have some inherent advantages. Foreignness has historically and still can connote quality. Consequently it is in the luxury good's sector where some of the more obvious successes have been reaped. According to its advertising agency Asatsu, Alfred Dunhill achieves 60 per cent of its world-wide sales from Japanese people. Many other companies and labels in the same sector have developed major positions, viz: Ralph Lauren, Hermes, Donna Karan, Louis Vuiton, etc. Numerous examples of foreign brand successes are presented throughout this chapter.

There is a litany of cases in which foreign companies have seriously misjudged the Japanese consumer and her relationship with products. An appropriate example is when the Morinaga-General Mills JV launched Mary Baker cake mixes in Japan under the brand name Cakeron, the product sold well in the retail outlets but then, despite the demonstrable consumer benefits, sales stopped. The Japanese are heavy consumers of bought cakes, but they have no tradition of home cake-baking (cake-baking was perceived as a specialist skill). The Cakeron concept sought to overcome this perception by offering the consumer a chance to imitate the purchased product at a fraction of the price: using advertising that, in terms of advertising volume, outspent the rapidly emerging "me too" competition, Morinaga-JM stressed convenience and the ease with which cakes could be created by using the mix. Although, in the past, the average Japanese home did not have an oven, the marketers believed that consumers could be persuaded to use its rice cookers for cake baking. Yet the consumer still did not buy. Post-mortem research established that the Japanese would not consider introducing anything else into the rice cooker

for fear of contaminating the flavour of the rice (Fields, 1983). Clearly, customer views had not been adequately researched, and failure to uncover problems until after the costly product launch ultimately meant the withdrawal of the product.

Johnson & Johnson expected that more frequent diaper changing would lead to higher talcum powder consumption; but this was not so. More frequent changes leads to fewer rashes but, more importantly, the preferred method of talcum powder application is with a puff, since it provides a more focused application and causes less mess in the space available. However, when Johnson & Johnson (Japan) attempted to persuade corporate management of the need to package its product for puff application, it was an uphill struggle: the mentality of "if it is good enough for the US and Europe, then it is good enough for Japan" hung on strongly; a fundamental error.¹⁶ Eventually J&J headquarters approved the request.

Interviewees frequently cited examples of foreign companies that had cried foul because their top selling products in their home market failed to proceed beyond the starting gate in Japan. They stressed the requirement for opportunities in Japan to be determined from and only from a Japanese perspective. For example, despite the Japanese preoccupation with cleanliness and tidiness — a trait reinforced by small living spaces — the market for furniture polish is smaller on a per capita basis than it is for similarly developed markets. Why? Those space restrictions mean that there is little room for furniture. As a result of this reduced living space in small-scale housing, the Japanese consumer often sleeps within smelling distance of the kitchen surfaces. According to Unilever, the selection criteria for surface cleaning products are conditioned accordingly. Product fragrance is a critically important consideration. Nippon Lever, which adapts almost all its products to Japanese tastes, claims for example that the Japanese consumer shows preferences for orange, fruity perfumes.

Nippon Lever's Chairman, Mike Schofield offers this advice:

¹⁶ See Box 5.13 for an example of P&G's folly.

Do not regard a difference in market conditions as an opportunity unless you have established the reasons for the difference. Be absolutely committed; spend the money necessary to make the required impact.

If the marketer is to address successfully the Japanese consumer's needs, it is essential to understand the relationship the consumer has with the product — and how this relationship may differ from product relationships forged elsewhere. For example, the use of a bath only to soak and the sharing of clean water has significant effect on the use of, and motivation to purchase, bathing products. Commodity items such as toilet soaps are purchased primarily as gifts, are hoarded, often for years, then passed on. Consequently these products must be manufactured with a longer shelf life. This has key implications for packaging formats, and in particular packaging quality, since the sealing must be sufficiently secure to constrain perfume loss.

Another example of the impact cultural differences can have on product strategy is in the area of skin care. According to research conducted by Nippon Lever, the whole beauty and cosmetic process have developed in a singular way in Japan. Japanese women spend considerably more time than their Western counterparts on their early morning beauty preparations (this effort is currently directed toward the cultivation of a natural look). A more basic example of this learning process is that, until the last few years, there was no tradition of buying processed fresh fish in Japan: preparation and coating of fish were performed at home. This is because the market for fish is so well developed — the distribution system provides good quality fresh fish all over the country. Nevertheless, frozen fish with or without batter is now being sold in large quantities in supermarkets and elsewhere — not least to provide fish fingers for the daily lunch box (*o-bento*), which Nippon Lever cleverly marketed in a formulation that allowed for cold consumption. Clearly, issues are changing even in the fresh fish market, and convenience cooking in microwaves and food processors is assisting this change.

Japanese advertising can have an individualistic emotional style which frequently confounds westerners, although during the last five years there has been some convergence between Japanese methods and US hard-sell techniques, each borrowing from the other. There are many freedoms which exist in Japanese advertising which no longer apply in other major markets. In the cosmetics' sector, where mood advertising has an obvious place, Revlon commented that a shift towards product oriented claims has become evident. Two directions are involved: first, a shift from corporate advertising (for example "From the House of Kanebo") to brand advertising; second, according to Revlon, the consumer has become more sophisticated and is demanding to know more about the product behind the brand name.

It was argued previously that product planning must reflect Japanese consumers' criteria for selecting goods, and since these criteria are subject to rapid shifts, a continuous market presence is crucial. Although Procter & Gamble was the first to introduce a disposable diaper in Japan, attaining the leadership position in a small but growing market, it was subsequently forced to cede its position to Japanese manufacturers Kao and Unicharm.¹⁷ Those Japanese outfits out-manoeuvred P&G by producing products that performed better than the US company's Pampers product in areas of crucial importance to the Japanese consumer: diapers for outings, and for overnight use. The Japanese diapers, which were better fitting and more absorbent, almost drove Pampers out of the market. Nevertheless, P&G has telescoped four generations of development into three years to produce a diaper that by 1990 had regained the number one position. The lesson: it is insufficient merely to export what is available and may have sold well elsewhere; with Japanese technological supremacy, it can easily be out-performed by local companies that understand the Japanese consumer.

Previously it was emphasized that one of the Japanese female consumer's

¹⁷ See Box 5.13

distinguishing characteristics is that she is used to products that have come from a zero-defect production system. She therefore expects excellence with both quality and value.¹⁸ The need for Western marketers to focus special attention on product quality was underlined by Heinz J. Sinniger, chairman of Nestle KK (Japan):

When there is a complaint anywhere in Japan, we send two or three people to apologise to the housewife and try to explain what caused the problem. There is a salesman, a PR man and there may be a factory employee. I do not think we would send people to a consumer who complained anywhere else in the world.

The single female was cited as being particularly important. Several large manufacturers have targeted their design efforts at these groups, and with some success¹⁹.

Box 5.9

Designing for single females

Sharp, the electronics company, realized that while many of its products were being developed for women, the development was being done by men. Sharp's response was to establish a special task force, the LED (Ladies Eye Development), which comprises female graduates in their 20s whose brief is to provide female user insight. The role of the designers is then to meet the LED brief. Many new products have emerged from this process, including a washing machine that can be programmed to wash clothes overnight so they can be hung out to dry in the morning. To put this into context, it is traditional for Japanese housewives to wash early in the morning, to take advantage of the sunshine for outdoor drying; hence, this machine frees up an extra half hour in the morning. To Western eyes, there is nothing revolutionary in such a product concept, but the majority of Japanese washing machines are comparatively basic, functional affairs, without much sophisticated technology.

Mitsubishi followed a similar procedure, producing a mini clothes' dryer about the size of a thermos flask, priced at ¥15,000. The target market was young females, who liked to wash their underwear at night, but do not like to hang it out to dry for fear of attracting

¹⁸ See Boxes 5.11 and 5.13

¹⁹ See Boxes 5.5, 5.11 and 5.13

male attention (Kilburn and Wilk, 1989).

Another team, this time at Matsushita Electric, determined that young women encountered problems removing cooking smells from their clothing after visiting *yakitori* restaurants, but they did not wish to have their clothes dry cleaned each time they ate out. Matsushita's solution was the "Brushing Steamer"; an electric clothes' brush that steams out smells and wrinkles simultaneously. Such is the power of this group of consumers that the Matsushita "Begin" product line, originally intended for singles per se, has been re-targeted on single females; in other words more emphasis on the female point of view has been included in product criteria and within the communications platform.

Over the last 10 years, the number of women holding driving licenses has increased by 250%. They now account for one third of all driving licenses, and about 50% of new licenses, creating a new segment within the automobile industry. The result is the *kei-jidosha* (light car), which is not merely a designed-for-women basis of transport, but also a fashion accessory that can be personalized and matched to different moods and wardrobes. The Honda "Today" features light pastel colours and comes with a 22-page accessory catalogue, including not only pastel and floral seat colours, but also matching umbrella holders, tissue box covers, shopping bags, and a convenient storage bin for high-heeled shoes. Computer technology has also been brought into the female arena. Shiseido, the Japanese cosmetics giant, has introduced computerized make-up simulators in their beauty salons. With the aid of electronic cosmetics' brushes, the demonstrators can simulate the effect of different products on the consumer before she commits herself to a purchase. Sony too has entered this market with hair-style simulators. Customers are able to assess the effect of superimposition of a variety of hair-styles before making a decision.

Source: R. J. Wilk, Interplan, Interview material

The point was made in the last chapter that foreign products sometimes connote positive qualities, and at a very simple level, the image of a foreign brand, even its packaging (translating the foreign pack data with sticky labels), can be attractive to the Japanese buyer. This inclination towards things foreign also underpins the production of nonsensical text in English on clothing and other items. Such slogans promote image-consciousness and have a visual suggestion of mystery in the same

way that Chinese characters can appear exotic to Westerners. Little wonder that in such a mix of expectations, there is much debate how a foreign product's properties should be best promoted and utilized in the Japanese context.

Revlon's president, Paul Hughes, devoted a great deal of time to discussions with his local people on the Japanization of the Revlon product. The staff argued that foreign was good and should be retained, especially since Revlon was competing with Japanese giants such as Shiseido and Kanebo.

I wanted to get more and more Japanese. But they argued our key point of difference is that we are foreign, so keep it foreign. That is the only way to compete with giants like Shiseido.

Foreignness, to Revlon KK personnel, represented a genuine point of difference, without which competition would have been impossible. This view seems to have been vindicated: major players Shiseido and Kanebo have lost a significant share of the department store business because, according to Revlon, the department stores want foreign brands in their cosmetic departments. Indeed, foreign products now account for 60% of the *depato* cosmetics' market. This willingness to buy foreign goods is evident from trade statistics (see Figures 2.5 and 2.9). Imports have been rising in recent years; and within this category, the ratio of manufactured products to total products has now reached 50%.

Makudonarudo (McDonald's) restaurants are a great success in Japan, and have rapidly become Japan's largest restaurant chain. The local franchisees of McDonald's changed little of the restaurant's concept except the transliteration of the name. However it did not stress its American heritage. As Tatsuki Kubo, senior manager of the public relations department of McDonald's Co. (Japan) Ltd, informed:

Japanese consumers have been copying the American lifestyle since World War II, but when it is pushed they hate it.

So successful was the process of Japanization, there are many Japanese who believe

that McDonald's is a Japanese concept. Kubo told the story of some Japanese boy scouts on holiday in Chicago, who remarked that *Makudonarudo* had reached the United States. They were proud that Americans enjoyed Japanese hamburgers. Yet, when McDonald's opened its first restaurant in the Ginza in the 1970s, many detractors thought it would not succeed because the Japanese preferred better food, and had a "cultural" reluctance to eat in the street.

Conventional wisdom regarding products the Japanese will take to is lacking. Several executives commented that: on one hand, the Japanese are negative about suggestions that what works elsewhere will work in Japan; on the other, foreign companies that heed these warnings often find that when a Japanese company adopts the same idea, it has done so successfully. The same applies to communications. When, for instance, Coca Cola suggested that the male actor in a commercial should be seen drinking directly from the bottle, Coca Cola style, it met with resistance. Coca Cola insisted and young consumers accepted it. This may or may not have been a case of Japanization, but it demonstrates how all products in Japan require a platform that convinces Japanese consumers that the product is right for them, as it is now.

5.3.2. RESPONSES TO GIFT GIVING

The importance of gift giving was highlighted in Chapter 2. One company that has been successful in building its concept around gift giving is Rolly Doll. The founder of this high-profile operation, Joseph Dunkle, described his philosophy as being based on segmentation and understanding the needs of a particular target group²⁰.

²⁰ See Box 5.10

Box 5.10

Rolly Doll: A Marketing Philosophy

Joseph Dunkle is regarded by some analysts as one of the best marketers in Japan. Dunkle maintains that to understand the Japanese marketing opportunity one has to look back to the post-war period. After 1945, when the Japanese were at a low ebb, they were glad to acquire almost any consumer item, but as the country became more wealthy, their tastes developed and became more sophisticated, moving towards luxury goods and services. A cycle of mass market consumption was embarked upon, during which time consumers wanted radios, refrigerator, washing machine, televisions and other consumer durables. Moreover, just as in the US when television was a new product, Japanese consumers were unconcerned about product form: For instance, they merely wanted televisions and did not worry about brand.

Cars became a sought-after possession: when consumers accumulated sufficient excess cash, they bought a car. Again, they were not too concerned about product form as long as they possessed a vehicle. Only when consumers had achieved their basic acquisitive goals did they begin to become more discerning with brand and product differences becoming increasingly important. The Japanese consumer was ready to move onto something else, and that something else was segmented consumption or consumption by class — something that had existed in Japan before 1939.

Dunkle points out how the war had made everyone poor: landowners had a little more money than others, and consumption was based upon mass processes. Japan arrived at consumption by class only about eight or nine years ago, at which point the upper middle class had enough savings and disposable income to buy whatever it wanted; it therefore moved towards the best in the world. French designer goods such as Hermes neckties, retailing in Japan at ¥15,000 (US\$115) became very popular. The Japanese consumer has therefore ascended quickly from the bottom of the consumer ladder all the way to the top. But such a heady ascent begs the sobering question: once the consumer has four Hermes neckties, what will he buy next?

Consumption by class in Dunkle's terms means that high-class people eventually want the opposite of what the masses have. Fine silk has its opposite — a tweed, perhaps a rough herringbone or a twill. Dunkle sees this play of opposites as a trend. In the world of interior design, the opposite of chrome, mirrors and high-tech lighting are wood and

other natural materials. Natural is associated with health. In Dunkle's case, this meant taking the opposite position from that of other cookie companies, which produced beautifully packaged and individually wrapped products that in Dunkle's mind invite the consumer's touch. Dunkle decided he was going for a more rugged (that is to say rustic) profile, and so his Aunt Stella's cookie is a home-made product, fresh and natural.

There is a tremendous market for cookies in Japan because of gift giving; 63% of Rolly Doll business is gift related. Whenever someone visits a friend's house, they will give a gift, and Dunkle believes food is the most appropriate choice: it is something the whole family can enjoy, and if it also has a story attached it will give people something to talk about at family gatherings. Realizing this, Dunkle drew on his home state in the US: Pennsylvania Dutch county; the home of the Amish people. Since his Aunt Stella was Amish, he used some of her recipes as well as those of his mothers, and the rest he designed himself. Despite no previous experience in the bakery business, Joseph Dunkle developed 27 different varieties of cookie, thus expressing his view of the segmented market. He attempted to appeal to the family unit, the grandmother, the grandfather, the son, the daughter, the mother. By providing a range from which they could choose, he was able to offer a diversity that would confound a large confectioner. Most bakers use one basic kind of dough to which nuts, fruit or some other ingredients are added; however, the Rolly Doll concept is that each cookie is home-made, different and made in small batches. On this basis, when developing the product, Dunkle was able to adjust the traditional recipes to accommodate Japanese tastes, changing the American soft texture to adapt to the Japanese preference for crispiness; thus he successfully Japanized his product.

Source: Interview material

Joseph Dunkle built a chain of cookies and cakes shops under the Aunt Stella's brand by being adept at spotting opportunities and building on personal strengths. He believed that the high level of literacy and intellectual curiosity of the Japanese could be utilized by building an Amish country theme around cookie shops. He exploits this curiosity on the cookies packaging by including information on the social history of the Amish people. At the same time he harnessed the widespread nostalgia for *furasato* — in other words the rustic birthplace existing deep in the

Japanese imagination — to adventures in travel, and arranged group holidays to rural destinations, especially to Pennsylvania. Dunkle is still exploring the countless domestic and international possibilities for product development.

5.3.3. RESPONSES TO MARKET SEGMENTATION

If the consumer is spoiled for choice and can afford to buy most things, in what ways can marketers approach Japan as a market opportunity? The answer, as Joseph Dunkle found, is to develop an intelligent basis for segmenting the market and target the consumer accordingly (see Box 5.10). One must be able not only to identify consumer groups, but also to communicate with them effectively. As Johnson & Johnson's Kneale Ashwell explained:

Our target consumers are usually females among 15 and 23, and housewives of any age. We are essentially selling to women, talking to women. You are looking at a huge number of women's magazines to get a decent reach. Even baby magazines, when you're talking to mothers to be or new mothers, there is a proliferation unlike you will find in the UK or the US.

This issue of market segmentation has attracted the attention of some of the most sophisticated market research companies operating in Japan. ASI Market Research (Japan) Inc., for instance, have a division called Trendtrack that scrutinizes consumer changes, and which has confirmed the growing importance of unmarried males in their 30s. Single males have more free time than family-centred males, and thus represent attractive targets for leisure products and for high-tech appliances designed primarily to support their lifestyles. Almost one third of female singles in Tokyo is noted to be living alone — especially true of university-educated people. These singles are white collar workers with high disposable incomes.

Infoplan confirms the importance of vacations, and finds a lucrative segment in the "silver market" (that is to say older age groups), segmenting it further into the high-, middle- and low-income groups. Since most market competitors are aiming at the rich silvers, opportunities exist to serve the less well off groups with

appropriate product offers. In its study on the "silver market", a tracking study that has been ongoing since 1984, Infoplan discovered an increase in pet ownership (and thus spurred some companies to enter the pet food business), and a new youthfulness on the part of the older generation. These are mature consumers with sophisticated tastes; they demand quality, whether it be in travel clothing or anything else.

In 1989, Shiseido organized an international forum on successful ageing. When comparing the lifestyles of four major cities — Tokyo, Kuala Lumpur, London and Paris — some major causes of complaint were discovered; the Tokyo data revealed for example that 69% of these "silvers" were dissatisfied with their home furnishings and interiors thus offering a huge market opportunity.

5.3.4. RESPONSES TO MARKET OPPORTUNITIES

Despite escalating costs, in particular media costs, indicated in Chapter 2, there have been some major success stories such as Nippon Lever's launch of Timotei shampoo in 1984, a product manufactured to the highest of Japanese quality standards. Market research was initially used to establish that naturalness was valued by the consumer. Brand advertising (mainly television) registered those properties with the consumer and a massive sampling programme was implemented, during which the product was distributed free. The programme and the acclaim that followed resulted in Timotei becoming the number two brand in the hair products market. This was achieved not by any mystical formula, but by the implementation of rigorous, textbook marketing of the kind that has marked Unilever's successes in other markets world-wide. The product introduction was planned well in advance, and supplemented every three to six months with new versions of the basic product that harnessed the same theme. By planning in advance and rapidly introducing the product variants, Nippon Lever was able to forestall encroachments on its line.

Many corporate interviewees regarded Timotei as a significant landmark in

MNC brand marketing. Nippon Lever delivered a product: a mild, natural shampoo to which the market responded. However, the shampoo market, although stable in size terms, is not so stable in other respects and is characterized by a continuous stream of new product entries. Timotei's real success lies not merely in winning market share (around 12-14% for all items under the Timotei umbrella), but in holding on to that share after the initial excitement of the launch had subsided. A relatively unusual success story has been that of Nestle's pet foods' operation, Friskies KK,²¹ which seized an opportunity based on a fairly low level of pet ownership, and on owners whose buying behaviour involved infrequent product usage.

Box 5.11

Nestle's Commitment To The Japanese market

Investing ahead of status

Nestle KK (Japan) is capitalized at ¥35 billion. Besides marketing coffee, the company has developed and now distributes more than 100 products, including coffee creamers, malt drinks, cocoa, cereals, culinary products, frozen foods, and the food products used in catering and vending machines. Nestle is also aggressively promoting other new projects such as roasted and ground coffee and pet foods. Its commitment to the Japanese market can be gauged by its tendency to make relatively high capital investments in relation to the size of its current business. It employs over 2,300 people, currently operates four factories (reduced from six, without encountering any labour problems) and has more than 20 co-packers, in other words contract manufacturers that produce Nestle goods to specification.

Long-term process

Nestle has a long history in Japan; its products were sold there as early as the 1880s. In 1913, the company opened a branch office and in 1933, it commissioned its first

²¹ See Box 5.11

factory. Subsequently, a manufacturing operation was established but its position has not always been secure: During the late 1940s and 1950s, the management in Switzerland regarded the Japanese market as more of a distraction than an opportunity and considered closing the Japan branch. Local management persuaded headquarters to change its mind, but even in the 1960s Nestle was still a relatively small 300-400 employee company. Only later did it develop operations on a large scale.

Market acceptance

During the last two decades, as a result of the internationalisation of lifestyle, Japanese consumers became more receptive to Western concepts and products — food and drink, travel, consumer goods. The number of supermarkets and chain stores also grew — a phenomenon which Nestle KK was able to take advantage of by pioneering point-of-sales merchandising activities; a practice it has since used extensively. At the same time, coffee shops were becoming popular meeting places for young people. Nestle KK was fortunate to be in the right place at the right time, and its relatively long presence in the marketplace meant that it could build on pre-existing trade relationships to take advantage of these rapid developments in Japanese consumer tastes.

The firm was also fortunate that with competition relatively weak then; it was able to pursue its goal of becoming the leader in the instant coffee market within five years of the market opening. To this end, Nestle undertook extensive market research to determine consumer preferences, and hence the products it sells in Japan today are different from comparable goods sold by Nestle in Europe and the US. Nestle build on its strong product position in Japan by using TV advertising to underline its message of superiority.

Nestle has always been quality and brand conscious. It always attempts to stay ahead of the market by being innovative. The company has the biggest research budget for food companies in the world. It is more people and product oriented than systems oriented, it adopts a long-term policy which it executed via a decentralised approach.

Distribution strategy

Nestle's strategy was simple: to fully integrate into the Japanese system using the *sogo shosha*, wholesalers and retailers. Apart from merchandising (one of Nestle's strengths), it introduced many Western promotional methods into Japan. It tailored its sales promotions to certain types of distribution channels and groups of wholesalers. These efforts helped Nestle develop close relationships with its trade partners — a factor which the company believes is the key to its success. Nestle also developed a strong

group of Japanese workers and Japanese middle and senior management. It uses the Japanese personnel approach in every way, although its chairman believes that a more balanced fusion of Western and Japanese approaches would be preferable. Training is paramount: At any one time, Nestle KK has about 10 Japanese staff working overseas for periods more than one year.

Diversification

One of Nestle's problems is how to diversify away from coffee — in particular instant coffee. At its peak, instant coffee accounted for more than 80% of the total business of Nestle KK; it is now 65% and declining. The principal growth products targeted are cereals, pet foods, regular coffee, Italian food specialties and chocolate, while a new area is the cosmetics' business via partner L'Oreal, which sells Lancome and Helena Rubenstein through JV companies. It is also in the pharmaceuticals' business via Alcon, one of the largest eye-care businesses in the world, and in mineral waters via Vittel. Nestle KK has entered a joint venture with two Japanese associates under the name "Nesfit KK," which concentrates on the health foods' sector, while acquisitions by the Swiss parent company have involved the firm in Italian pasta and chocolate. In addition, with imported products now representing a significant growth area, a separate company has been formed to deal with them exclusively. Many of these new fields in which Nestle KK has become involved demand high technology. This need for high technology is reinforced the company's belief that every product offered to the Japanese consumer must be something the consumer does not already have. In support of this strategy, Nestle has invested in the construction of local development facilities which will work in parallel with its international research efforts.

Nestle's Pet Food Marketing Foray

Background

Pet foods are at the end of the supply chain of meats and grains. When a beast is slaughtered, the gut and some of the organ meats go towards human consumption and the rest — offal — goes to the production of pet foods. There are a number of trends that affect supply: the slaughter count has gone down and beef prices have increased, and pet food has expanded world-wide. Each year the supply of raw ingredients diminishes as more and more offal is used for human consumption; some of the major restaurant and food processing chains have started using offal to reduce the overall cost of beef in ground beef patties, etc. It is therefore becoming increasingly more difficult and expensive to deliver the same product, but of course the consumer continues to demand quality.

The problem requires significant research efforts on processing techniques and supply chain management, the objective being to devise alternative products that utilize flexible formulations and enable the company to be a low-cost producer of a consistently good, high-quality, high-palatability product. Pet food companies across the world operate with this flexibility, selecting the formulation that best utilizes the ingredients available each day. The result of this process is, of course, inconsistency, and while consumers in the US are prepared to tolerate this because they are paying only 35 cents a can for the product, in Japan the result is unacceptable. Japanese consumers currently pay the equivalent of US\$1 per can, which reinforces their tendency to be discerning. As a consequence, Friskies is forced to bear the costs associated with little variation or flexibility in their formulae.

Japan is a consumer, not a supplier country, of pet foods. The US and Australia are producer countries, since they have very large beef stocks. Moreover, pet foods are a common item in these markets. There are a large number of factories and support systems to supply the offal, grain, and packaging. Cans, bags, and other packaging materials, are also all cheaper in these countries. It is therefore much cheaper to supply from the US or Australia than to source in Japan, which means the foreign importing firms in Japan such as AGF, Masterfoods and Nestle have a competitive advantage because, no matter what, their costs are lower, especially if they are supplying some other domestic markets and the Japanese export market simultaneously.

Friskies started out as a JV in 1985, but when this JV was dissolved, Friskies took some major brands — including Mon Petite — from the break-up. The company adopted a step-wise approach to building up a sales and marketing organization of 120 people, acknowledging that it could not increase its sales without more salesmen, and it could not pay for the salesmen without achieving more sales. Its goal was to build a ¥20-30 billion company over the long term, with an appropriate sales force to sustain that performance. With Nestle's investment and support, it expanded its sales force before achievement, repeating this process in the three years from 1987-1990, and it will continue to do so until further costs of expansion are no longer commensurate with returns. In that way, it will match the coverage that is being provided by its competitors. Friskies has achieved a 20-30% growth every year for the last five to six years.

Market opportunity

Friskies believes that Japan is one of the major world opportunity areas for pet food in the long term; however, prices are expensive and consumers expect consistently high

quality. Without consistency, the product will fail in Japan. For this reason, Friskies has frequently rejected product shipments on grounds of colour or aroma variation, reasons that in the US would never be causes of refusal. Almost every shipment into Japan is inspected.

According to Eric Weber, the former marketing manager of Friskies and currently a vice president at Nestle USA, Inc., the sourcing company must be educated about Japanese standards:

When I first started here I used to go overseas by myself, but now I always take my Japanese team with me and they listen, they understand, they explain. I take time in meetings. I'm asking the parties whether they understand, how they want to deal with each particular issue. If you send the Japanese by themselves, they drive everybody insane. They're good people, they share the same intention but they say things like "This is completely unacceptable." In an English translation that means, not only do I disagree but I'm not budging.

Distribution

Japan has some very special attributes, of which the distribution system is one. The pet food business is controlled primarily by pet food wholesalers who then distribute the product to supermarkets, pet shops, home centres and convenience stores. The business has changed over time, starting off in the pet shops, then expanding into supermarkets, and it now continues to develop further as the pet shops decline at the expense of home centres, which are growing in overall importance. Although pet food wholesalers are somewhat fragmented distribution operators, they entered the business when most of the volume was going through the pet shops, and now have a stranglehold on the business.

The supermarkets want to purchase direct, but such is the premium put on service and supply that there is very little likelihood that the market will really evolve in the same way it has in Europe or the US (with the manufacturer supplying direct to the major retailers). However, the margins taken in the distribution channel are huge: the trade takes 20%, i.e., what a supermarket would normally take in the US and in addition, the supermarkets take 30%. As a result, consumers are forced to pay a high price for the product because of the enormous overhead incurred under such a specialized distribution system, especially for a relatively low-value product. If the consumer buys a can for ¥100 yen, Friskies sell it to the wholesaler for ¥157. It is difficult for a manufacturer to control prices when there is a 42% margin between manufacturer and the consumer.

Advertising

Advertising in Japan is expensive, and given the numbers of pet owners, advertising of pet foods is directed at only a small group of people. In any case, most purchasing is done while the consumer is already shopping (unlike cars, electronics, etc.), and purchases are made on a weekly, or even daily basis. Constant reinforcement is necessary — which is the premise on which Friskies strategy is based. Before 1988, the company had been advertising at what is considered to be below par rates and its competitors had been advertising at what Friskies believed to be about the right levels. Since that time, Friskies has changed its approach and now matches or exceeds its market share with overall spending: It believes that it is not possible to make market share grow without being willing to spend in a ratio of twice advertising share of voice to market share.

Source: Interview material and Tajima (1989)

Once this status in the competitive Japanese environment is reached, the issue becomes how to hold share and claw back cash. Companies experience problems when they attempt to reap rewards by cutting back on advertising expenditure: they find that the fight for share is always fierce because their competitors are market share driven. MNCs should be aware that any decision to reduce advertising requires the support of sound marketing research data, verifying that a strong brand franchise has been established.

Now we proceed to examine, in greater detail, the nature of the responses of MNCs to the competitive environment.

5.3.5. RESPONSES TO COMPETITION

All the MNCs interviewed for this thesis have developed positions in the Japanese market. However, the situations they encountered in Japan are far from identical; each was faced with a variety of obstacles (either perceived or real), calling for differing responses. For example, the opportunities offered by the Japanese market are not the only reason to develop a Japan-based strategy. In

Kodak's view, for example, Japan is a quality market similar to Switzerland, and a logical site for the ¥10 billion research centre it has recently opened near Yokohama. Kodak believes that products developed in Japan for Japan will enable it to compete with Japanese competitors anywhere in the world. A key element in this strategy is its attempt to influence the behaviour of its competitors — primarily Fuji — and participation in the world's second largest market comes second to forcing Fuji to devote more time and resources to competing in its home market. Kodak now admits it was a mistake to wait so long before taking an aggressive stance in Japan.²²

What these successful foreign companies share is an accumulated experience in Japan's markets, they have all made an effort to learn about Japanese business practices, and have developed their positions from within Japan. Such foreign companies are now entering the Japanese market directly, without relying on sole agents, not only because they attribute greater strategic importance to Japan but also because they are using the country as a basis for both learning and honing their quality and "imagination" standards. These direct entrants are recording major successes and are well positioned to take advantage of the rapid changes in Japanese consumer preferences.

Similarly Japanese companies are acquiring foreign based companies which besides supplying their extant markets they use these companies to supply Japan. Before doing so they elevate quality standards to Japanese levels and in this way the quality expectations of consumers in other markets are enhanced. For instance, to source product for Japan a Japanese company may buy an orange juice company in California. Having made the acquisition it will seek ways to leverage its investment. It will probably invest in new technology to elevate the quality of the US product to the standards demanded by the Japanese consumer, which simultaneously raises the quality expectations of the US or European consumer.

²² See Box 5.4

Companies that remain mere onlookers to this process risk being excluded from future competitive arenas.

5.4. KEY STRATEGIC RESPONSES

In Chapter 2 it was mentioned that there are a number of theories about Japanese companies that attempt to explain why they have been so successful and it was shown that Japanese corporations account for 17 of the world's 30 largest firms.²³ In this section of Chapter 5, following the logic of Figures 3.3 and 3.5 to 3.7, we will explore the foreign companies' reactions to the idea proposed by Keegan (1983) that Japanese harness their "group" culture to:

- Carefully formulate corporate philosophies;
- Manage intelligence gathering.

5.4.1. RESPONSES TO CORPORATE PHILOSOPHY

The issue of the importance of corporate philosophies to Japanese companies was explored earlier in Chapters 3 and 4. The interviews conducted in this research study showed that successful MNCs also think about their corporate missions, but — contrary to expectations fostered by some authors (Doyle et al., 1986; Keegan, 1983) — foreign competitors in the Japanese market considered Japanese corporate aims to be more "fuzzy" than their own. They claimed that individuals in Japanese companies certainly had a view of what kind of company they were part of, but that this view had come about by osmosis rather than by reading and remembering a two-sentence mission statement. In other words, Japanese corporate philosophy is part of the air the employees breathe from the day they join the corporation.

What is this "fuzzy" view that foreign companies have identified? It may not be fuzzy at all, but simply that Japanese companies operate on a different model to that

²³ See Figure 2.22

of Western companies. McKinsey & Co. assert that the Western model is primarily financial, in other words the company profitability is underpinned by the net sum profitability of its component parts. If options and opportunities can be shown to deliver high financial returns, the onus is on individuals to demonstrate why such options should not be pursued regardless of any other consequences. In such debates, semi-qualitative judgements on topics such as synergy — or the lack of it — comes into play. For product-line profitability, a product that is losing money will be dropped unless justifications to the contrary can be provided. Debate will be largely focused on the financial model, and under such a scenario an alternative product shown to be in need of funding might well be the beneficiary.

Another example of this "fuzziness" in strategic matters is the Japanese tendency to stress qualitative, even abstract factors. Japanese company philosophy often focuses on the people, rather than the products or technology. Why? In conversation with the president of one Japanese company, it transpired that workers were not called employees: they were called *shain*, which roughly translated means corporate member. The company president said he often joined in company celebrations, to the astonishment of some of his Western counterparts, drinking beer and singing with the warehousemen. "Why not?" he asked. "After all, we are *shain*."

In such a company, divisional managers can act like company presidents because they have full access to company performance data. If *shain* want to earn more, the onus is on them to evaluate how productivity gains can justify the increases. Long-term employment being the goal, the underlying assumption is that enhanced efficiency will cause people to be re deployed elsewhere. Brands and products, it was said, are merely commodities; the important thing is the operating philosophy, and that is "to achieve an enjoyable life working together." This is the way the company lives up to its fundamental and enshrined position in Japanese society as an extension of family life.

In the case of Japanese companies, according to Trevor Jones of McKinsey, the overall financial model is not the principle by which they overtly work. Without this flag around which to rally, Japanese managers seek recourse in a solution or option that they all agree is the best they can think of based on consensus. The Japanese method — if it can be called such — is to take three options that everyone agrees are the best ideas that can be generated. As long as those ideas are in line with the general view of the business environment and with what it is believed the players want to achieve (neither of which may have been explicitly articulated), a decision is reached on the basis of so-called consensus. One might ask, given these conditions, whether they could choose anything else. It is only from the Western perspective that this process appears to be irrational corporate behaviour. Japanese competitors often invest in a fight for market share beyond what seems rational to the Westerner (this is also discussed below). It could be argued that this is actually their financial model insofar as profitability follows, according to the PIMS study, market share eventually.

No wonder that Japanese companies tend to behave differently, since their primary goals are not linked to profit, but to the longer term. Winning is of course crucially important to them, but it seems to the Western eye they are often attempting to win market share regardless of cost. Whereas the Japanese perceive market share as a worthy objective. For a Western company to compete in the same arenas as a Japanese company, it must have the wherewithal to withstand the ammunition that its Japanese competitors will inevitably fire at it. Wherewithal also means the possession of some product differentiation that represents consumer value, access to the consumer via a proven distribution channel, funds to withstand the rivalry, and a realistic expectation of returns — given that the Japanese competitor may be content with much less. We shall see later in this section that Coca Cola has successfully traded on this formula. However, the explanation offered by RJR's President of his company's approach is:

The objectives are quite simple. This is a major market of opportunity. As such we have to get into the sort of position where we have some leverage. We have 2% market share at the moment but 3% to 5% will make us much more viable. When we have the necessary distribution backed by the resources to support it, profitability will follow. Achieving a certain size will give us leveraging, just as Suntory has about 10% of the beer market, but in its view it doesn't have a viable position yet. We are niche oriented, focused on urban segments and our business is more premium priced. For each of our three brands we're looking for 2% to 3% of market and if we can achieve that, we can start to build distribution. If you have a brand that's selling well at retail, you will always get retailers to stock the brand. It's good business for you, that's when you're in, that's when it's solid.

Keith McCulloch, President RJR.

From the viewpoint of a foreign MNC manager in Japan, relying upon his Japanese team to achieve key matters in hand, this system of consensus building can at times be frustrating — mainly because it is so tormentingly slow. Some of the more cynical interviewees wondered whether anything was ever achieved, since they claimed that the Japanese were not slow per se, but were slow in making any decision they did not want to make. Whatever the truth, however, MNC executives in Japan have learned that there is no other way than to accept the practice, since failure to appreciate these crucial differences in emphasis is likely to lead to false expectations of Japanese competitor behaviour.

5.4.2. RESPONSES TO INTELLIGENCE GATHERING

In Chapter 2 the traditional view of Japanese companies importing ideas which are appraised through formalized group processes, with resultant company focus on the development of those that pass the appropriate test (Doyle et al., 1986; Keegan, 1983). This international "poaching" strategy may have had some basis before Japan achieving technological superiority, but without exception interviewees argued that as a contemporary model it ignores the massive technological and social leaps that have occurred in Japan. Such a sophisticated country as Japan does not

need to import ideas from other areas of the globe technologically and socially more backward than itself. These days, the West is beginning to place just as much emphasis on the Japanese market as a source for new ideas and technologies as the Japanese have hitherto placed on the rest of the developed world. Some interviewees acknowledged that one of their aims in entering the Japanese market was to become members of the Japanese technological and scientific community. In a similar way, the Coca Cola - Nestle strategic alliance formed (mentioned earlier) to exploit world-wide vending opportunities was conceived as a direct result of the intelligence gathering activities of these companies in the Japanese market.

Some of the experts interviewed while conducting this research felt that Japanese marketing was an area of weakness, and that expertise and flair were lacking in this regard. They claimed new products stemmed from a process of trial and error, rather than of market evaluation; however, this factor has not passed unnoticed by the Japanese. Japanese companies recognize that consumer marketing expertise and the ability to read the consumer are major factors behind the success of companies such as Nippon Lever and other foreign MNCs. Consequently, these companies are now taking a greater interest in consumer market research and are beginning to incorporate some of these Western methodologies into their own approach.

5.4.3. RESPONSES TO PRODUCT PLANNING

One of the issues which has to be dealt with is that major corporations must learn to educate the tastes of consumers in their subsidiary markets to conform more closely to those in their major markets. Japan being a market which it has been argued has received some degree of neglect is now being taken into account insofar as Japanese consumer tastes are being considered in the development of world brands. As explained by Dermott Gatenby, Director - Planning and Corporate Affairs, of Philip Morris: In the UK people would like to smoke Marlboro because

they find the imagery appealing, but British smokers are accustomed to Virginia cigarettes which have a completely different taste. Therefore, the major importers into Japan adapt their cigarettes and produce world brands suited for sale in Japan — not by using Japanese tobacco — but by taking account of the Japanese taste.

The "passionate" approach to product planning described in Chapter 2 and the rapid pace of product and technological innovations are peculiarities of the Japanese market that MNCs grapple to cope with. In the soft drinks category alone, new product launches ran at approximately 1,200 in 1990. Typically, after a new product is brought to market, it is quickly followed by many other entrants in the same category. A battle ensues in the media and in the stores for a while — and then many drop out as rapidly as they entered. Distribution channels are so hungry for the new goods their competitors are handling that wholesalers will demand the same of their suppliers; hence, even before the products have won a consumer franchise, entrants are lured into the fray to comply with distributor demand. Coca-Cola (Japan), for example, has a very powerful marketing channel. The company consigns production and sales of its soft drinks to 17 Japanese bottling companies owned by local beverage manufacturers and trading firms. Coca-Cola (Japan) distributes its products via this network to over 1 million retail outlets; it also has access to 700,000 vending machines (one-third of the nation's total). As a result, it is the market leader and commands around 35% of the Japanese soft drinks' market.

If products are introduced as late brand entrants into an established category, it is usually the case that major advertising cost penalties are incurred so that consumer inertia may be overcome. However, the powerful position enjoyed by Coca-Cola (Japan) means that if new products are introduced by others it can take its time to gauge, emulate and even improve on them. By leveraging its distribution situation, it can still win market share despite being perhaps second or third to enter the new product category. As testimony to the effectiveness of this approach, Coca-Cola (Japan) generates higher profits than its US operation and has a product

portfolio decidedly different to its US parent or any of the other associated companies within its world-wide organization: The greater proportion of its revenues is based on canned coffees (Georgia Canned Coffee is one of the nation's top-selling drinks) and teas, which are distributed via its extensive vending network. Ideas for these products were not imported from Coca-Cola operations elsewhere, but rather were procured from the Japanese market.

The success of Coca-Cola has stimulated its competitor, PepsiCo, to experiment with distinctively Japanese concepts. For example, in February 1990, it launched a carbonated tea called Jazzinn, which was positioned as a very new type of soft drink to maximize its introductory impact. Products such as soft drinks must gain distribution through key retailers like Seven-Eleven and Lawson, for only when these chains adopt the product will the smaller stores carry the line. In Jazzinn's case, the combination of unique product properties and positioning, together with a strong selling effort based on test market data, enabled PepsiCo to win distribution in the key outlets. Such a fundamental — and very straightforward — marketing approach worked insofar as, in the first year after its launch, Jazzinn outsold comparable newly introduced products five- to six-fold, thereby achieving sales of some three million cases.

Furthermore, in 1982, Japanese sales of Contac 600 cold medicine began a decline that amounted to 25% of its market share in the next three years. The primary cause was competitors which mimicked SKB's advertising and increased the number of cold symptoms that their products would treat while Contac neither changed its formula nor improved its product. SKB adopted a strategy to differentiate Contac from other products. A new product, Contac *Sogokanboyaku*, was developed to treat more symptoms. Adding Vitamin C to the cold capsule provided a value added dimension no other competitor possessed. A new package design used colour and graphics to increase its visibility. Sales terms were developed for the new product to encourage pharmacists to recommend it. Three

creative TV commercials were developed, and billboard and train posters followed up on scenes from TV. After only three months on the market, Contac Sogo claimed a 2% share of the ¥47 billion cold medicine market. Contac 600 and Contac Sogo achieved sales growth increases in 1986-87 of over 20% compared to Contac 600's sales in the previous year.

Japanese companies excel in applications development; however, in some Western countries like the UK, development is often thought to be a mundane activity; and it suffers against the pure sciences in the race to attract talent. In contrast, the Japanese are able to continuously develop new and enhanced products because of their R&D base; thus the range of their technology also grows, spurring entry into new arenas. For example, Kao is predominantly a consumer products company that competes in many arenas, several of which it opposes Unilever, and yet it views itself as a chemicals' manufacturer. (As a result of its mastery of surfactant technology, it has now entered the field of computer floppy discs). Although Unilever possesses comparable technologies, these days it chooses to focus almost exclusively on the fast-moving consumer goods' sector. This contrasts with Kao and other Japanese companies which tend to use the technology developed to solve consumer problems to leverage moves into other product fields²⁴.

According to McKinsey & Co. and the other management consultants interviewed, Japanese companies are financed in such a way that their inherent competitiveness is sharpened. They operate on what might be described as an implicit cash flow model. Although they do not necessarily use that terminology, companies clearly assess what returns they are making on sales; the bankers simply tell them how much capital they can use, and even if the bankers thereby impose a financial limit, they do not provide a financial performance measure for the

²⁴ Kao has now reached the stage of marketing its computer floppy diskettes. It is using the positioning theme... "From the surface technology scientists." and is promoting the product by bundling bottles of shampoo with the diskettes.

company's various operations.

Being so quick off the mark to respond to opportunities, Japanese companies are capable of entering interesting arenas, but to which they are complete newcomers. They will then fight it out they win one of the first three or four positions. If at some point the board agree that they are not going to succeed in procuring a place among the winners, they are just as capable of cutting their links and withdrawing. Foreign MNC competitors have suggested that the decisions taken by their Japanese counterparts to enter an arena are often emotionally based. In other words, in a situation where a Westerner may not consider it sensible to enter a certain field, Japanese companies may attempt to go in anyway, without requiring objective proof that such a course is warranted. The impression has been conveyed by Japan watchers, for example Keegan (1983), that Japan's long term vision is a key to its success, whereas, some of the foreign managers interviewed suggested that analysts are far too emphatic about Japanese companies pursuing long-term objectives, when the Japanese follow as many false trails as do their Western counterparts. If they meet trouble (as even they do from time to time), then the lead bank is likely to intervene and call the management to account.

Several of the foreign MNCs interviewed, complained that Japanese corporate behaviour, at times, appears irrational, but what is likely is that to the Japanese it has been entirely purposeful. However, this apparent irrationality does have fundamental strategic implications. Before entering any field, an MNC should carry out its research carefully to identify the competitors it is likely to come across. Having done so, a proprietary positioning should be developed, new variants prepared, for example, Nippon Lever with Timotei; Bristol-Myers with Bufferin and so on, or the logic of its current positioning defended, for example Johnson & Johnson with Reach.

5.4.4. RESPONSES TO NEMAWASHI

Some of the managers interviewed said they learned to manipulate the process by building their own obligation system, but this was a painful process. Although in Japan the strategic directions are determined from the top down, the determination of strategic execution is often a group decision at lower levels. If the group makes a decision, everyone remains supportive of it. The problem is getting through the transitional phase; after that, the implementation is very fast.²⁵

Box 5.12

Nemawashi: Slow Preparation Fast Execution

Before 1983, the Lipton business in Japan had been a fairly complex JV, managed by Nippon Lever's JV partners. During 1983-84, Nippon Lever conducted arduous negotiations with its partners on the reorganization of the Lipton business, the outcome of which saw Unilever take over the management. Nippon Lever emerged from the process maintaining positive relationships with their partners.

Negotiations were concluded around the beginning of September 1984, and the immediate Japanese response was that, since agreement had been reached, speedy efforts should be made to execute the details of the plan. They indicated that everything could be completed by the end of the year, obviating the need to run two sets of books — one for the old business and one for the new. To the Japanese partners, this seemed the most obvious and sensible way to approach the problem. In contrast, in the West this could have been the point at which the lawyers came in to reap the gain from adversarial misunderstandings. In this case, agreement was firm: no sooner had hands been shaken on the deal than the lawyers were available to do what they were asked — execute the terms quickly.

This was because the Japanese side had consulted a very wide base of interest during the negotiations, and had already won agreement from all its associates. In contrast, the Unilever negotiator was suddenly faced by an apparent reversal of the earlier situation, in other words the Japanese were showing frustration at the potential delay involved in obtaining ratification from the Unilever board in London. As Michael J. Schofield, chairman of Nippon Lever, commented:

²⁵ See Box 5.12

It is a different style of negotiation. The nemawashi process represents a more natural style of management. In exactly the same way, as chairman of the business, I get to a point at which I say: OK the discussion has to stop, let's get on with it, we're going to do X. From time to time that is totally acceptable; but if I tried to run the business like that full time I would have a revolution on my hands. That's not the way the business is run. That degree of consultation goes on to a greater degree in Japan than in America. Indeed American industry is more top down than most European industry.

Source: Interview material

Many interviewees noted that an important factor related to *nemawashi* is not surprising the Japanese team; if surprises must be sprung, one should let the team know in advance, and then explain what created the surprise. Unexpected situations can easily cause confusion. According to Richard J. Findlay, president and general manager of Smith Kline Beecham's consumer brand operations in Japan:

If you want to implement change you have to signal ahead that change is going to come and get them committed to change ... You walk out of here 10 o'clock one night and you come back in at 8 o'clock the next morning and everything has changed. You have got to avoid confusion. Being in a different culture, if you are not sympathetic or empathetic to their culture, that's where foreigners managing here foul up. In Japan you have to maintain consensus. Once you get confusion, everything just freezes up.

The view was also expressed that elsewhere in the developed world — in the US or in Europe — people may rush around feeling confused, even admitting being confused when the occasion warrants it, and someone will usually sort out the chaos. In Japan, however, once confusion is introduced into the system, it is very difficult to nullify it.

5.4.5. RESPONSES TO LONG TERM ORIENTATION

The level of commitment facing a foreign MNC in Japan is much higher than in Europe or the US: The initial investment itself is likely to be much larger in absolute terms than in major European markets, and not much smaller than going national in the US. Companies also must be prepared to wait longer for a return on their money, payback periods are longer (at least five to six years) and even if they have a successful product, they should expect and plan a response to the two or three Japanese competitors that will be in the market within six months offering "me too" products — at a much cheaper price.

Foreign MNCs will find it impossible to compete if they are targeting a return on investment of 8-10% after tax, since Japanese companies expect less — probably half of Western levels of return on investment. Johnson & Johnson's investment return world-wide, after tax, was more than 10% during 1989; however, its Japanese competitors may be content with about 1.5 — 3.5%. Part of the reason for this is the support given by the *keiretsu* system, but another more likely explanation is that for many years interest charges were very low so companies could survive with a much lower yield on capital and could then reinvest in the business, and as a result grow faster. With this mentality now subsumed into corporate culture, growth is the prime objective. Even Japanese subsidiaries in the UK were found to be much more market oriented; more single minded in their pursuit of market share, and more alert to strategic opportunities (Doyle et al., 1988).

Moreover, as has been noted, unlike its Western counterparts the Japanese competition is not bound to show ever-increasing quarterly results — "quarteritis", as it is termed in the financial press. Only those foreign companies large enough to absorb investment costs in their reporting statements can usually consider entering the Japanese market. Nevertheless, not all interviewees believed that 90 – day performance measures are an overwhelming constraint on the success of Western

MNCs in Japan. Smith Kline's Richard Findlay, for instance, opined:

I don't think that being successful in Japan is different to being successful in any other major market. You have to be committed ... even in the US ... Yes, we work to 90-day numbers in the US but if you work to a 90-day number you need a long-term objective, if things start getting too hot we restructure and we can redefine the 90-day position in relation to the long-term objective.

However, to succeed in Japan, foreign MNCs agree that they must be prepared to play the Japanese game in reverse, which means looking beyond short-term horizons. A better alternative may be to modify headquarters and shift the relevant parts of the head office operation to Japan to force top corporate management to understand Japan from close quarters.

RJR is a company that appears to have accepted the Japanese financial model, its President indicated:

We are not focused on profitability here; we are focused on volume. We are in a company that has just taken on \$25 billion of debt. So persuading such a company to keep investing long term in a market like this is really an act of faith. Size ultimately delivers profitability.

Such long-term orientation reflects the operating style of many kinds of Japanese and successful foreign MNCs. It confirms in itself the absolute necessity that foreign MNCs demonstrate long-term commitment, the sincerity of which is judged by the quality of relationships that its key executives form in Japan. One MNC president remarked that many Western companies delude themselves that they are really committed to Japan, but go no further than making a statement about it and subsequently manifesting behaviour that negates the statement. MNCs must continuously evaluate what can reasonably be expected from Japan, with what amount of effort, and what time.

This thesis has continued to stress that top-level corporate support is essential. To win this support is difficult because the time horizon for returns may exceed the time span of a particular chief executive. The companies doing well in Japan are

those such as Procter & Gamble and Bristol-Myers, which have had a Japan presence for a considerable time and have pursued a vision that has transcended the tenure of several CEOs.

Long-term commitment is also judged by the quality of relationships. It is frequently stated that Japanese business is relationship-oriented rather than being transaction-oriented, for example Japanese executives are hesitant to talk business immediately, and devote considerable time to assessing the kind of people with whom they may be doing business. According to the president of R. J. Reynolds, Keith McCulloch:

It's not something that takes two minutes and a hand-shake, a cup of coffee or a couple of beers. Especially with a foreigner, they (the Japanese) want to know: Is he the sort of person who will actually will look us in the eye and tell us the truth? Do we like the sort of character that he has? They are always peeling back the layers to see what's down there. There is no obvious formula to relationship building. It's about what sort of reaction you get when you go into different places, how you handle yourself, a combination of what other people think about you. It builds over time, but they either like you or not, quite early on.

Foreign executives, new to Japan, are often, surprised that relationship building is so important in Japan; salesmen will spend an inordinate amount of time calling on existing customers and devote very little effort to opening new accounts. Although the relationship is important, business strategies are essentially similar in Japan as to other countries. Retailers in Japan are retailers: They work on very similar lines, and the fundamentals of their business are similar; the players merely operate in different types of environments.

All interviewees thought these crucial relationships in Japan were more complicated than in the West, because of the difficulties they had met, as Westerners, to enter. However it is not possible to separate their Western identity problems from their language impediments. Even so, Japanese business relationships are likely to have been built over years; people attend the same

university, enter the same company at the same time, and so on. However, this is not so very different from the coterie networks that exist in other countries, and it is therefore not impossible for MNCs to build their own relationships in Japan. A good starting point is a willingness to participate and imitate. If a foreigner is in Japan for a long time, and if he is successful and manages to do many the little things correctly (such as to follow the rules of etiquette), he may be able to build his own network.

The importance of relationships has been clearly testified to in this research; however, it is also clear that the transactions themselves are no less important than in other markets. Products still have to perform; pricing must be competitive; deliveries must be reliable, and so on. Of course, deals will fail or agreements cease not only because of lack of good relationships, but because the transaction is faulted in some way. For example, a distributor may tie up with a new supplier if the existing supplier fails to cover a new product on the market; a wholesaler may lose a retail account if he fails to make a small, uneconomic emergency delivery. Blanket statements about the Japanese dealing on the basis of relationships rather than transactions are gross oversimplifications, since both are important. Expatriate management often becomes frustrated because it says it can competently deal with transactions, but not with the relationships, when the fault lies in its inability to transact according to accepted form.

US or European companies operating in their home markets may be less dependent on the existence of a prior relationship, and they may also be more inclined than their Japanese counterparts to seize the benefits offered with product performance and/or price by an unfamiliar company — a factor that may work to the advantage of Japanese companies operating abroad. However, a number of executives interviewed perceived that the Japanese (especially large Japanese companies) are regarding it as their international responsibility to become more open — and to be seen to become more open — to straightforward business

opportunities unrelated to previous relationships. It will be a difficult change to make, given the traditional Japanese respect for long-term "binding" and for proper business form.

On the foreign MNC side, a willingness to grapple with relationship obstacles will remain crucial: formalities such as business cards, invitations, punctuality, tours, lunches, receptions, are all part of a series of courtesies to be observed. In both business and social terms, they are not obstacles at all; they are merely sensitivities to be registered and acted on. For example, when signing a first tentative agreement, a Japanese company may organize a comprehensive tour to introduce its new partners to the entire warehouse and distribution team (all dressed in the same uniform, all sporting the company logo). This tour is an important concession; a sign of a new "family" involvement. It may be a bore, but it signals the beginning of an all-important relationship — the essential lubricant to Japanese market entry.

The group effort (and often collective co-operation) of Japanese companies at home and abroad provides them with a clear sense of strategic direction. Interviewees have learned that it is therefore more imperative for foreign companies to have a strategy for Japan, and a strong commitment to whatever path is selected. The lesson learned by many of the MNCs interviewed was that in true Japanese style, everyone in the company must form "consensus" about what the strategy comprises and where the company intends to go. To fail to do so may result in a lack of focus which will ultimately fail to make the necessary impact on the market. While this may sound generic the reality is that it often surprising fails to happen in western markets, an observation made earlier by this author as well as others (Reid, 1981; Reid, 1982; Reid, 1989; Reid, 1990), without corporate extinction taking place, but to fail to do so in Japan, it was generally agreed, is to invite disaster.

This principle was harnessed by the majority of the companies in the sample. For example according to Richard Findlay, president of Smith Kline Beecham's

consumer brands operations in Japan, its strategic aim is to become a top 10 company.

All members of our operations know our ranking and the companies immediately in front of us. Our representatives when making sales calls to pharmacies can immediately relate their sales objectives to our targeted competitors. He has to make sure we have more shelf space than the companies immediately ranked above us. If all our representatives do the same on a micro level, then in the total marketplace we will move up the rankings. Once we have progressed to the limit of our increase of competitive edge, we can make further gains by introducing a whole range of new products in new categories.

5.5. IMPLICATIONS FOR MARKETING STRATEGY IN JAPAN

There is nothing radical in the above prescription, just as little evidence has emerged to support the view that marketing in Japan — as far as consumer goods marketing is concerned — is fundamentally different from any other "foreign" market. However, in the longer term, marketing strategy in Japan requires the **perfecting** of fundamental marketing principles and in doing so requires that foreign MNCs diligently:

- Probe consumer fundamentals via marketing research;
- Determine the optimum mode of market entry;
- Formulate responsive competitive strategies;
- Formulate an aggressive and dynamic product strategy;
- Manage the communications process;
- Develop a suitable distribution strategy.

5.5.1. PROBE CONSUMER FUNDAMENTALS BY MARKETING RESEARCH

As was shown in full discussion with foreign MNC executives, Japanese consumers — as those elsewhere — produce responses to marketing efforts that often cannot be predicted without a clear understanding of their needs and special

features. To reach this understanding means questioning many of the prevalent, and often contradictory, assumptions: for example that the Japanese market is unique and culturally distinct but that many Japanese live a Westernized lifestyle; that they drive cars with which Westerners are familiar; that they all choose Western designer labels which makes them similar to Western consumers. This last assumption is the most misleading.

Over the years, many major errors have been made by MNCs that should have known better and would have been better positioned had they conducted some fundamental marketing research, not merely statistical but insightful qualitative research.²⁶ Research that explains the "why" of consumer behaviour rather than merely the "what." One such company is Kellogg's, which first entered Japan around 30 years ago with its product, Corn Flakes. Kellogg's did not realize — or rather, did not research the market to find out — that the average Japanese family did not normally keep milk in their homes; hence, Japanese consumers thought the product to be snack food and were eating it dry. The situation has since changed, and after application of fundamental marketing principles to develop the cereals' category; Kellogg's is now very successful.²⁷ Its initial error is a classic example of the type of mistake that companies still make.

Many more such examples of shattered myths can be cited: Avon learned that Japanese consumers are far more interested in skin care, whereas US consumers are more interested in cosmetics; Avon's response to these findings resulted in 30% of its total Japanese sales being derived from skin-care products. Unilever uses its world-wide expertise in marketing research to determine the exact way in which the Japanese use their baths, how and when they wash their hair, hands, face, what they eat for Western as opposed to Japanese breakfast, and so on, before making any

²⁶ See Box 5.13

²⁷ Although invited to participate in this study, the Japanese president of Kelloggs declined. The above data was obtained from McKinsey & Co.

attempt to position its brands. It learned that if the marketer has a product that is successful in a category in other countries, it must still be researched and Japanese opinion sought before being launched in the Japanese market. It should not be assumed, for instance, that Sato-san will understand what the product is or what its benefits are in the same way as would Mrs Smith or Frau Schmidt. The Japanese home often comprises a mixture of east and west, redefining consumer necessities and preferences. Hence, the onus is on foreign MNCs to establish where the product might fit into the life of the Japanese target customer. This logic runs right through the product spectrum. Before selling household cleaning polish, the marketer must understand how a Japanese housewife cleans the house (she uses several cloths to clean and polish different surfaces and items; she sleeps within smelling distance of kitchen surfaces, etc.). This naturally influences her attitudes about cleanliness and product fragrances.

As discussed in earlier, Japanese distributors avoid "export happy" companies, largely ignorant of specific opportunities, but which claim to be interested in the Japanese market. They argue that such "export happy" firms do not approach Japan with the same seriousness that would accompany a bid to enter the US market, even though the scale of opportunity in Japan is second only to the US and, in terms of geographical compactness, it can be more efficiently serviced. Unfortunately, it is common for foreign companies to believe that because the product is a major seller elsewhere, it must sell in Japan. Both distributors and MNC executives interviewed said that Americans, in particular, are frequently conceited about their products, insofar as they display an extraordinary lack of knowledge about other markets. Even a number one product in the US will not necessarily perform well in Japan, especially if the market is already served by entrenched Japanese brands.

However, dedication to marketing research is one of the key factors shared by the successful MNCs involved in the pet food business, soap, shampoos and detergents among others. All have succeeded in the development, positioning and

further processing of products to the point that the consumer now prefers the foreign item to the Japanese alternatives. Similarly, United Airlines have conducted market research data by way of a variety of channels such as questionnaires and in-flight surveys by service representatives or interpreters. This feedback includes spot checks that reveal all kinds of information — from certain items that need stocking, to general observations about mix of menu items and their relative popularity on various legs of the flight routes, down to "we didn't have enough women's magazines on the flight to Honolulu today." Robert Leu, the North Pacific communications manager of United Airlines, illustrates:

Our research findings suggest that we should load more beef than chicken from Japan but we should load more chicken than beef from the United States, because when they're going to the United States they're hungry for beef. When they're coming back they've probably had too much beef already.

Similarly, meticulous research is also undertaken by the tobacco companies. RJR, for example, uses sophisticated, almost scholarly market models to gauge the progressive success of product launches.

Product excellence does not stem from a single action; it results from doing many small things right. There must be strategic direction, focus and dedication to detail, and in this sense Japan is no different from any other market. All that is required is an insistence on fundamental marketing principles and taking nothing for granted. In so far as the Japanese themselves lack the skills of marketing research, this is one area in which foreign companies have an advantage. According to James T. Conte, chief operating officer of ASI Market Research:

Foreign companies are much more sophisticated than the Japanese in research terms, but the Japanese are moving up quickly because the market is so competitive. It's too expensive to fail with products.

In 1984, Nippon Lever used its research strengths — in other words its ability to develop, test and refine a product beforehand — to launch Timotei, the most

successful consumer product launch to date by a foreign company. It identified a positioning and concept that no Japanese competitor had previously recognized, and then minimized the effects of any competitive response by limiting the scope of the test market. Even though the results of the test were disappointing, it had the interpretative skills in-house to make a judgement to proceed to a national launch very quickly.

During the launch period, free samples were distributed to three-quarters of all households in Japan (25 to 30 million). This was the largest sampling campaign ever conducted in Japan and was co-ordinated with a major TV campaign and sales force efforts to ensure higher profile product presence in the all-important stores. The collective effect was not only the speedy success of the product but, two years after the launch, Timotei was still in the number one position with a 15% brand share. Since the initial launch, Nippon Lever has engaged in a planned program of product extensions, designed to fill all potential applications and niches, even though heavy competition soon arrived. By 1988, 40% of the product category was occupied by brands created after Timotei. For example, in that year, Procter & Gamble introduced a revolutionary concept in hair care: Rejoy, a combined shampoo and conditioner. Since the hair of Japanese is thick and more difficult to manage than most Western hair, P&G focused its technological expertise on the problem and was soon able to claim Rejoy's success in dealing specifically with Japanese hair, in contrast to the stress on all-round naturalness that Nippon Lever had adopted. By the end of 1989, Rejoy had therefore gained 7% of the market, and Timotei's share had dropped to 5.2%. Nippon Lever is now having to maintain share by cutting Timotei's prices, while Rejoy continues with its premium pricing strategy.

Box 5.13**Procter and Gamble's Learning Experience**

Procter & Gamble (P&G) met with many difficulties in its early days in Japan. Despite some successes, such was the adeptness of its competitors that the company very nearly joined the ranks of failed foreign MNCs in the Japanese market. According to one source, in the period between 1973 and 1986 P&G wrote off US\$300 million (Huddleston, 1991), although when invited to do so, Procter and Gamble refused to confirm this figure. What was less easy for it to deny was that it abandoned KK status (equivalent to plc or Inc.) in order to avoid having to make public disclosures regarding its disastrous financial performance.

Marketing research

It took years for P&G to turn the financial corner, its eventual success was based upon the recognition that winning in Japan could only be achieved by knowing more than its competitors about the markets, consumers, and trade — the entire business environment. P&G realized that knowing the consumer requires an understanding of their habits, attitudes, penchants and dissatisfactions, which in turn called for an open mind, free of in-built Western biases. When the company first entered the Japanese market, it was fully armed with statistics, but it admitted that it had no in-depth understanding of local consumer needs. Only qualitative research can explain not only *what* consumers are doing, but *why* they are doing it.

P&G subsequently learned that the target consumer for most of its products, the Japanese housewife, was very different from her Western counterpart in so far as she is uncompromising in her demand for excellent quality, value and service. Growing up in an environment where virtually every company manufactures products to a standard of zero defects means that the Japanese housewife expects the same high level of quality in every product she buys.

Tailoring the product to Japanese needs

The second step in the success process was to tailor the product to the needs of Japanese consumers, and it was here that P&G learned the fundamental shortcomings of its export-based strategy. It had entered Japan with exports of products manufactured for other markets, only to discover that these goods were out-performed by Japanese competitors. P&G may have been the first company to market Pampers, the disposable diaper, very quickly dominating what was a small market, but competitors

such as Kao and Unicharm quickly analyzed the product and found that it did not perform well in two important situations in Japan — during outings and overnight. These competitors then introduced better fitting, more compact, super absorbent polymers that were designed for the Japanese baby and its diet. Mothers responded positively to the new products, because they were tailored to the Japanese situation. P&G responded by focusing its efforts on R&D, embarking on a major program to develop four generations of Pampers products in three years, rolling each new version out in one area, and progressively expanding the geographical scope of its distribution as manufacturing capacity came on-stream. When the next generation of product — greatly enhanced for the Japanese market — came on-stream, P&G re-launched, and as a result of its dedication, managed to increase its share from 7% to 28% in 30 months. Eventually it regained leadership of a market that had grown four times in four years, and in which virtually 100% of mothers use disposable diapers for their babies.

Distribution strategy

Another area of learning was distribution. In the early 1980s, P&G had dealt with around 2,400 wholesalers, but with so many geographical overlaps, it suffered from volume dilution that — coupled with its then limited product line — resulted in a serious lack of leverage, especially given the numbers of wholesalers involved. Furthermore, P&G had failed to develop close relationships, which the company now takes care to foster as a vital key to doing business in Japan. Besides servicing the 5,000 largest retail outlets in Japan, P&G's relatively small sales force had been trying to deal with 2,400 wholesalers and clearly could not function effectively.

Realizing this, the company carried out a sales and distribution strategy review in 1985, which assessed emerging industrial trends, both in the wholesale and retail trade, and the performance of its competitors. The review revealed that in the retail area the large supermarkets were growing in importance. P&G responded by establishing a National Accounts Division within its sales force to provide retail coverage from corporate headquarters to the retail store, with direct linkage to the supplying wholesalers. It also increased the call frequency to the largest outlets, while working through its wholesalers to manage the balance of the retail trade.

The new sales and distribution strategy had retail and wholesale focus, and P&G's greatest effort was devoted to the rationalization of the wholesaler network. Its strategy was to select a small number of about 50 core wholesalers to be given geographical priority, supplemented by an additional 90-100 specially selected firms to round out the

geographical coverage and ensure that all major chains and trade types were covered. This "second tier" group would work operate by way of several hundred wholesalers to deliver the broadest possible store count distribution. P&G now works very closely with its network of chosen wholesalers in what it calls a "strategic alliance", a partnership that provides the basis for a highly efficient distribution network — one that can compete on equal footing with the distribution systems harnessed by all its competitors in Japan.

Eventual success

By 1990/91, P&G's Pampers was the leading brand of diaper, and its product Colac, the number one laxative. The company also has market leadership in liquid laundry detergents and fine fabric detergents, medicated soaps, acne treatments, catamenials and adult diapers, all as a result of its hard-won knowledge and the same kind of product strategy that gave impetus to the resurgence of Pampers.

Source: Interview

The underlying message that is derived from the above is that the most fundamental assumptions about Japanese consumers must be questioned. It is rudimentary but essential. Japanese consumers do not necessarily approach a consumption practice from the same perspective as their western counterpart and it is the role of the marketer to uncover their motivations. To fail to do so is to court failure. This message may appear so commonplace as to be banal yet it is a principle that was overlooked by the so called "World number one marketing company" at a cost of US\$300 million.

5.5.2. DETERMINE OPTIMUM MODE OF MARKET ENTRY

As discussed in Chapter 3, companies marketing goods in Japan face several options:

- Indirect exporting;
- Direct exporting;
- Licensing;
- Joint Ventures; and
- Direct investment (Kilter, 1988).

As a result of studying these foreign MNCs, no blanket approach can be advocated. The choice of entry mode depends on several factors such as company resources, technological or product differentiation, and the scale and nature of the company's objectives.

5.5.2.1. Indirect Exporting

This is an option for high-value, low-bulk density items as part of a niche strategy. The downside is that the exporting company relinquishes a great deal of control over its brand and its subsequent marketing. Agents and other intermediaries should be chosen with extreme care, since in Japan a long-term agreement is likely to be necessary — and once the contract is signed, it will be difficult to develop another opportunity.

5.5.2.2. Direct Exporting

This calls for a higher investment than indirect exporting, and is suitable for companies trying to enter the Japanese market. However, its main sphere of application is commodity-type products on the fringe of consumer markets, and high-value branded goods with proprietary qualities. It is imperative that the brand possess qualities that have intrinsic value in Japan, in other words the brand must be perceived by Japanese consumers to have stature; otherwise burdensome advertising

support may be required. This would have to be funded by the owners of the brand, and they would be wise to oversee it. MNCs should be prepared to spend heavily to position and sell the product effectively.

5.5.2.3. Licensing

This entry method involves high opportunity costs, in other words the difference between a measure of gain from licensing and the much greater gain of promoting one's own technology or brand to the full. It provides for only a limited form of participation, and has advantages only when a company does not have the resources or the will to muster a more aggressive entry strategy. Licensees can easily become future competitors, and the Japanese have great skill in applications development once patents have expired and manufacturing processes have been mastered. Agreements can often be circumvented by substitute technologies, and although some protection may be afforded by trademarks, that protection is only as strong as the consumer franchise that has been established.

5.5.2.5. Direct Investment

This is the longest-term and highest-cost entry method, but one that can result in significant progress if care and dedication are applied.²⁷ Eastman Kodak (Japan) has built up its operation in Japan to sales of more than US\$1 billion — all within five years of its initial direct investment. Others, as we have seen, have taken much longer. Clearly, for certain companies, direct investment can make enormous strategic sense.

²⁷ See Boxes 5.4, 5.11 and 5.13.

5.5.2.4. JVs

Once the JV is established, it is essential to understand what recourse exists should problems arise. The financial implications should be considered, as must the legal position. If the Japanese partner is responsible for major functions such as distribution and manufacturing, what audit functions should the foreign partner have? How ought strategic direction be decided and through what process? Frequently, however, many of these fundamental matters, were not well defined in the beginning when the JV was established. Reports were received of the parties involved being highly enthusiastic about the opportunity, with the result that agreements ended up being rather loose and vague, and the partners then found themselves locked into rigid sets of unfavourable rules. These situations are further complicated by the fact that Japanese management remains more static than that of their Western, in particular US, counterparts.

According to most of the executives interviewed, JVs have become less popular as a mode of market entry — especially with those companies that have acquired Japanese market expertise and have the financial means to go it alone. Most of the foreign executives interviewed believe that a wholly owned presence is the best approach for the Japanese market. The majority see JVs as a transitory phase, often an unhappy one. Eric Weber, the former marketing manager of Friskies KK, Nestle, advises:

Don't go into a JV. Don't ever JV in Japan if you've got a strong position world-wide. The JV partner has an interest in keeping you out; it never has the same orientation as you do or the same objectives.

He argued that employees of the JV are in effect on secondment from the JV partner and have its interests at heart. The key employees in the JV are likely to return to the parent should it be disbanded; something to be considered when

attempting to negotiate out of a JV arrangement.

This view does not, of course, cover all circumstances. The best advice for companies contemplating the JV route is to do adequate homework and preparation. Firms lacking a strong product line, adequate size, expertise and/or funds to fight their corners in the market have few options open to them. Japan offers a myriad of opportunities, but it is also an extremely competitive environment. The costs: of offices, staff, distribution, and so on, of merely starting up in Japan can be astoundingly expensive. Hence, for those companies without the resources to go it alone, a JV is a vehicle that intelligent management should consider — but with extreme caution.

5.5.3. DEVELOP SUITABLE DISTRIBUTION STRATEGY

What then should the foreign MNC consider when setting up a distribution arrangement? It depends on the size of the company. The distribution option for a single-product US\$50 million sales value company is quite different from that of a major international company similar to Bristol-Myers or Procter & Gamble. There may be sound reasons why the latter companies should distribute directly, but similar reasoning would not apply to smaller companies. Strategies must fit the company's situation; selection depends on the product opportunity, the competitive situation, financial capability, on management abilities, and on the amount of time that can be devoted to the Japanese market.

Ultimately, distribution strategies depend on the product and the competitive situation. With prestige products, for instance, sales are often limited to concentrated markets and for this the brand image is crucial. Obviously, as foreign manufacturers attempt to expand their consumer franchise, they come into more frequent and direct confrontation with their Japanese competitors and, if defeated, the image of the foreign product may be tarnished. This was the experience of Scotch whisky in its efforts to take market share from Suntory.

Companies attempting to circumvent Japan's lengthy distribution channels will generally meet with disastrous results. General Foods, for example, attempted to sell directly when it first approached the market, but even in the instant coffee sector, in which it is a giant elsewhere, it was singularly unsuccessful and was forced to cede position to Nestle. Eventually GF entered into a JV with Ajinomoto Co. Inc. (forming AGF), and when Ajinomoto's distribution connections were harnessed to its own outfit, GF's share of the instant coffee market jumped dramatically.

In contrast, when Coca-Cola entered the Japanese market, it successfully built on its proven method of using bottle delivery trucks. While this was a concept new to Japan, Coca-Cola skilfully organized the idea to fit with the Japanese way of doing business, setting itself up as a franchiser and avoiding direct sales involvement. The franchisee bottling companies — all independent companies in which Coca-Cola had no direct investment — effectively became Coca-Cola's sales arm; they carry out all the bottling and sell the product directly to restaurants and retailers by way of delivery trucks.

Many foreign companies have succeeded in the Japanese market by tapping into existing distribution connections. Sears Roebuck, for instance, co-operates with Seibu Department Stores Ltd; Whirlpool, the electrical appliance manufacturer, uses the Sony distribution system; Warner Lambert chose Seiko as its partner to distribute Schick products, the net result since Schick has dwarfed Gillette by gaining 78% market share.

Such relationships offer both attractions and disadvantages. On the positive side, *depato* groups for instance Seibu, Tokyu, Tobu, Odakyu and Keio occupy prime positions above and near mass transit locations. As a result, they are capable of offering prime exposure to both local and foreign products. The opportunity to gain such high-quality coverage while limiting one's own financial exposure is attractive in the short term. The negative side is that the Japanese retailing business

does not provide access to massive concentrations of purchasing power such as those found in other countries. Since most *depato* chains have fewer than 30 stores, there may be some short-term success, but it will be difficult to expand beyond this level once exclusive agreements are signed.

There is no absolute solution to distribution strategy. Unilever is currently comfortably dealing with up to 2,000 primary and secondary wholesalers, while Procter & Gamble found it impossible to develop an in-depth relationship with the 2,400 wholesalers it had previously. Its solution, as has been discussed²⁸, was to create a restricted hierarchy of core wholesalers.

5.5.4. FORMULATE RESPONSIVE COMPETITIVE STRATEGIES

Japanese economic and corporate performance across the globe is adequate testimony to the fact that Japanese competitors are formidable. These companies have massive financial and technical resources at their command. Nevertheless, companies, for instance, Nippon Lever and Procter & Gamble are successfully competing with major corporations like Kao; Revlon is confronting formidable operations such as Shiseido and Kanebo; and Nestle has carved out its own position.²⁹ Clearly, foreign MNCs can compete in Japan, but they have had to adopt clear strategies in certain crucial areas:

- Competitive monitoring;
- Strengths leveraging;
- Brand franchises;
- Distribution capability;
- Modes of distribution;
- Offensive strategies; and
- Niche marketing.

²⁸ See Box 5.13

²⁹ See Box 5.11 and 5.13

5.5.4.1. Competitive Monitoring

Competitive and market monitoring is a critical activity, whatever the market concerned. A lack of knowledge about competitors' activities is likely to leave a concern vulnerable to rapid erosion of its market position. Certainly, Japanese companies devote great efforts to monitoring their domestic competitors and preparing a speedy response. If MNCs make a similar effort to understand their Japanese competitors, they too can identify viable opportunities and begin to leverage their own strengths. The manifest difficulty of monitoring competitors from a distance has been a key influence on the decisions of companies to make a direct entry into the Japanese market and/or to develop their research capabilities within Japan: Bristol-Myers Squibb is seeking to develop an R&D facility independent of its US parent company; Kodak, ICI, P&G, Unilever and others are all active in R&D within Japan. Kodak wanted to monitor its competitors' — primarily Fuji — in Japan, taking particular note of how they reacted to Kodak's attacks in their home market. In this way it can form an appreciation of competitive reaction both within Japan and world-wide.³⁰

Marketing is another aspect of competitive behaviour that needs to be monitored. Kodak's previous monitoring of scientific and development activities in Japan was limited to conference attendance and perusing scientific papers. By establishing direct entry into Japanese scientific circles, it is now able to have a more direct understanding of key issues. If these understandings are to have any relevance, however, such insights must be followed by decisive responses; this thesis cites many examples of foreign MNCs that have capitalized on the direct knowledge they have gained.

30 See Box 5.4

5.5.4.2. Strengths Leveraging

If a foreign company is lacking in some strengths in relation to its Japanese competitors or does not possess some element of product or technological uniqueness, it would be unwise for it to attempt "me too" strategies. Such approaches are unlikely to garner interest from either distributors or consumers. To succeed in Japan, a foreign company must possess some advantages it can leverage — whether they be product, technology or marketing expertise. There are many examples of companies that have successfully built on their strengths. For example, Johnson & Johnson has an enviable presence in Japan, and it is functioning with a number of J&J franchises; it possesses technological superiority over its competitors in the hospital wound-closure business (through Ethicon); it is a market leader at the sophisticated end of the surgical market, as well as being involved in infection control (by way of the Surgikos franchise) and pharmaceuticals (by Janssen); it is also involved in diagnostics (through Ortho). Although Japanese companies are trying to emulate its success, clearly most competitors do not have the world-wide influence, experience or technology that J&J possess. This makes it difficult for them to combat J&J in these technical arenas, although in the general consumer arena the local Japanese companies are more than able to compete.

Other examples of strengths' utilization are Nestle's expertise with in-store promotions, Unilever's harnessing of market research and product conceptualization skills, and Coca-Cola's utilization of its extensive distribution presence. Almost all those companies on which data have been collected have demonstrated adeptness at harnessing their strengths.

5.5.4.3. Brand Franchises

Toiletry goods' manufacturers admit that almost any low-tech producer can bring out a shampoo, but that does not necessarily enable them to build brands. J&J admits that the Japanese consumer market is extremely difficult to compete in, but nevertheless it has over a period of 30 years established a thriving business, based on brands and the development of brand positions: Baby Shampoo (world-wide); Band Aid, Baby Lotion, Baby Oil (all number one market leaders); Reach Toothbrush (number two).

As MNCs in Japan know, when a new product is successfully launched in Japan, it is a virtual certainty that there will soon be Japanese "me too" products. They may well compete on price and as was indicated earlier Japanese expectations of investment returns tend to be much lower than those of a foreign MNCs, but the acid test of whether a new product is successful is whether the consumer buys it at prices yielding satisfactory margins. Marketing research data can give guidance and perhaps some insight into likely consumer responses, but it is the consumer who ultimately decides. However, Japanese manufacturers are inclined to continue directly to the acid test. They act quickly, fuse their marketing and engineering efforts, and speedily put products on store shelves. Often the only marketing research performed by Japanese manufacturers is to launch a product and observe subsequent consumer reactions.

If some proprietary element can be established, it is possible for MNCs to succeed, even as late entrants to the Japanese market. Amex, for example, was neither well known nor associated with a sense of prestige in Japan (six card companies were already operating in the country). Amex's usual market entry strategy was to lead with its green card and follow with the gold; however, for Japan, it opted to go in with the gold card. While in retrospect, Amex believed it would have benefited from entering the Japanese market earlier, giving it more time to create awareness of what the company stood for and to adjust the product to

Japanese consumer needs. Entering with the gold card turned out to be the right policy, building on a proprietary sense of the quality and prestige associated with the American Express gold card (Firestone, 1988).

Once developed, a meaningful brand identity is a valuable property. Amway and Avon successfully built upon awareness of their brand names to enter new business fields, in particular that of nutritional products. Nippon Lever introduced a variety of compatible products under the Timotei brand name. Moreover Nippon Lever provided much of the impetus for Unilever to harness its mature Lux brand and apply it to other categories such as shampoos and body lotions, so that in Japan Lux shampoo now outsells Timotei. Bristol Myers has applied its Bufferin brand to other formulations such as liquid analgesics. Coca Cola has harnessed its brand by applying it on coffees. Johnson & Johnson has extended its Reach brand to both toothpaste and mouthwash. Rolly Doll used its Aunt Stella brand by applying it to furniture and holidays.

5.5.4.4. Distribution Capability

As we discussed above, the building up of an effective marketing and distribution channel is a time consuming and onerous business. Novel methods of distribution should be explored such as Direct Marketing³¹ or network marketing³². However, once achieved, an effective distribution arrangement is a great competitive strength. For example, Coca-Cola has developed such a powerful distribution capability that it was able to use a late entrant market strategy to great advantage. In other words, it used the same approach developed so successfully by many Japanese companies. It monitors the new product initiatives of its competitors and then focuses its R&D and market research skills on formulating fine-tuned products even more suitable for the target consumers. Finally, to compensate for

³¹ See later section on Direct Marketing for example of Washington Wine.

³² See Box 5.5.

its, often planned, late entry, it has harnessed its powerful distribution position to ensure that the product is within easy reach of consumers.

5.5.4.5. Offensive Strategies

Although MNCs such as Bristol-Myers, Kodak, P&G and Nippon Lever and so on have entered the Japanese market with major investment programmes, and by meeting formidable competition head-on, the majority of foreign companies targeting Japan are not in their league and could not sensibly fund such strategies. Therefore, these concerns must assess the scale of operation and modes of entry that they can support long term. Failure to do so means that foreign companies may well alert Japanese competition to their products — and these competitors, armed with abundant resources and superior distribution coverage, may easily capture the market.³³ Clearly, there is no one way to operate a marketing strategy in Japan.³⁴

5.5.4.6. Niche Marketing

Japanese competitors are formidable, not least in their competition with each other. Moreover, the products they generate all come from the same national source, so to that limited extent they lack differentiation. How can MNCs best compete with them? One answer is to avoid the rather direct head-on competition mentioned above (this is better left to heavy-weight MNCs with large investment budgets) and engage in niche marketing. This can also be done by harnessing strengths — such as the property of being foreign.

Niche-market strategies have been successfully implemented by many of the companies interviewed during the preparation of this thesis. Heinz's frozen food operation, Ore-Ida, set up in 1983, let it be known that it did not want any conflict

³³ See Box 5.13

³⁴ See Chapter 2 and box 5.1 and 5.13 for the contrast between P&G, Unilever, Gillette and Levi Strauss

with domestic competitors and hence would always price at a level 15% above domestic brands. This position was supported by substantial advertising and promotional expenditures. The strategy was so successful that when Heinz reduced its prices, as did all companies in response to government exhortations, all the domestic suppliers within 24 hours dropped their prices by that percentage, thereby retaining the 15% differential.

Rolly Doll has been extraordinarily successful in adopting this niche marketing idea,³⁵ building its whole business around the Japanese value of *furusato* (rural birthplace, home-on-the-farm myth); Nippon Lever has developed a major brand concept from the natural properties of its shampoo; Coca-Cola, besides its world-famous soft drink, has built a major business around canned teas and coffees dispensed through vending machines. With infinite levels of distribution, these machines supply iced canned coffees in summer and dispense the same cans hot in winter.

5.5.4.7. Formulate Aggressive Product Strategies

MNC managers confirmed that new product development happens at a much higher rate in Japan than elsewhere in the world. Japanese producers bypass many of those phases identified by Western companies as leading to successful new product development — evaluation and screening, business analysis, testing and commercialization.³⁶ These processes are underpinned by traditional support services, for example marketing research, ability to segment markets conceptually, product testing. These functions were considered by many interviewees to be Western firms' strengths and Japanese companies' weaknesses.

Japanese manufacturers favour a product development style that is more obviously "incrementalist", which does not necessarily mean, as some interviewees

35 See Box 5.10

36 See Box 5.14 and Figure 5.1

suggested, hit-and-miss product planning. "Incrementalism" in this context simply means that large, innovative Japanese companies tend to behave like small entrepreneurs, in other words they accept the necessary improvisation involved in development. They observe their users' needs closely, and avoid detailed marketing or technical plans at a too early stage; they are quick to develop new products with follow-up versions and "me too" goods, and in this regard Japanese management appears slick. Most Japanese products have emanated from R&D efforts rather than from prior analysis of market segmentations. Japanese companies favour taking a technology; incorporating it into a product format and then launching it, rather than asking what the market is and what the consumer is precisely looking for. Market targeting is subsumed into the development process as are assumptions of market requirements. Little wonder they maintain such a rapid pace of new product introduction. With manufacturers exploiting their inventiveness in this way, the Japanese consumer is flush with choices.

Marketers without genuine proprietary positionings are therefore extremely vulnerable to emulation by others, and they must be well prepared to respond to the high rate of product activity engaged in by their competitors.

Box 5.14

Product Strategy In Japan

Innovation

Japanese companies have a reputation for identifying product trends, specifying the technologies required to improve on these products, and then turning them out in massive volumes. They offer competitive price levels to the consumer as a result of their economies of scale, thereby winning market share. The past reputation of Japanese companies was that they scanned the world for ideas and imitated them, adding an extra value to the product in the process. However, this characterization is no longer entirely accurate. There are numerous examples of foreign companies entering the Japanese market with a three- to four-year technical lead; only to find their products quickly matched — and just as quickly left behind — by superior Japanese innovative

effort. The key Japanese weapon today is not the ability to emulate, but the wherewithal to innovate — an ability illustrated most clearly by Japanese attitudes to their own domestic competitors, for example the current camcorder market. Kevin Jones of McKinsey offered the following example. Sony's best selling CCD-TR55, a miniaturised video camcorder that weighs only 790g, required Sony to "shrink" 2,200 components into a space occupying one quarter of their previous size. To achieve this, a massive technical effort was required. Yet, within only six months of its introduction in June 1989, Sony had acquired direct competition from Matsushita and JVC. Sanyo, Canon, Ricoh and Hitachi were also selling palm sized camcorders within one year.

Product covering

Product covering is a form of insurance. Instead of relying on an overview of the potential market, in other words by using marketing research data, the Japanese simply ensure that they can cover their competitors' activities, taking products apart to find out how they are constructed. This limits risk in so far as a product planning process based upon concept development frequently requires untried technologies to make a concept operational.

Me too products

The launch of "me too" products is as essential ingredient for the product-covering process, but does not always meet with success. In the pet foods business, for instance, Japanese concern Yosaki attempted in 1990 to enter the arena dominated by Mars' Pedigree Petfoods and Nestle's Friskies, but it was forced to withdraw because of its inability to secure a top position in the sector. The Tohado confectionery company made a foray into pet foods and backed out. According to Friskies, both failed to develop suitable products, met quality problems, did not advertise for long enough, and had too little experience of the business to appreciate the difficulties involved. These Japanese competitors did not communicate to the purchaser in a way that took account of the cat's position as "family member" in the Japanese familial unit.

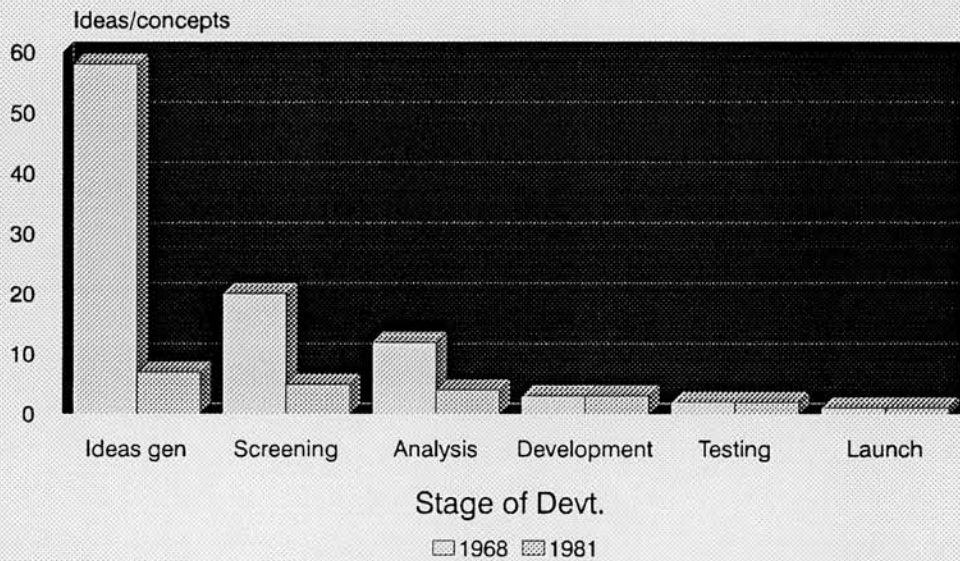
The "me too" Japanese competitor-led strategy has both attractions and dangers. On the plus-side it enables the Japanese to develop a market presence very quickly, and should this happen to be in a category that turns out to have growth potential, they are well poised to take advantage of opportunities. On the downside, the same logic could take a company into arenas that offer neither consumer benefits nor commercial prospects. For example, Coca-Cola reported some 1600 new product introductions in its field during 1990 alone — and the vast majority of these failed to establish a market

position. To the outsider, huge sums appear to be wasted on advertising these new products on grand scales; however, advertising is just one of the promotion costs incurred. Such a scale of product activity would be impossible in the West because the conceptual development and testing phases usually included by Western companies (see below) impose heavy burdens on scarce, expensive resources. It is unfortunate but understandable that when foreign MNCs find themselves dealing with a competitor that appears to be acting irrationally, they immediately fall back on what they perceive as their own rational, proven way of doing business. The point is that while it may be difficult for them to accept that things do not necessarily work their way in Japan, understanding Japanese consumers from a Japanese viewpoint is critical to success.

Parallel development

Japanese companies are extremely adept at parallel development. The benefits of problem solving and learning are immediately incorporated into the product's successor while developing the Mark I version of a product. Only a matter of weeks after Matsushita and JVC launched their camcorders, Sony was able to respond with two improved new models — a lighter one, and another with a collection of advanced technical features. Another aspect of product covering is product "churning". The classic Western marketing approach is to generate a concept tested for value on target groups of consumers; attempts are then made to translate the concept into a viable product. During this process, the consumer is frequently consulted to determine whether the ideas are being faithfully translated into customer-sought value. The actual process can be long, and may involve a high degree of attrition, with some 60 ideas or concepts being required to yield a successful product in the market, since technical issues frequently compromise the original consumer-based concept (see Figure 5.2).

Figure 5.1 New Product Planning



Source: Booz Allen and Hamilton

Japanese companies ignore this process and, instead of first testing ideas or concepts by way of market research, they simply make up a batch of the product and then gauge its viability by the way it sells to the consumer. One-third to one-half of the time is required to get new products into the market as a result of the streamlined development process. It also eliminates much of the marketing costs so not only can products be taken to market quicker than by their Western counterparts; they do so at a quarter to one-tenth of the cost. Significantly less is invested per product, and smaller product changes are made at three times the pace of Western concerns (Jones and Ohbora, 1990). Three major factors contribute to this success:

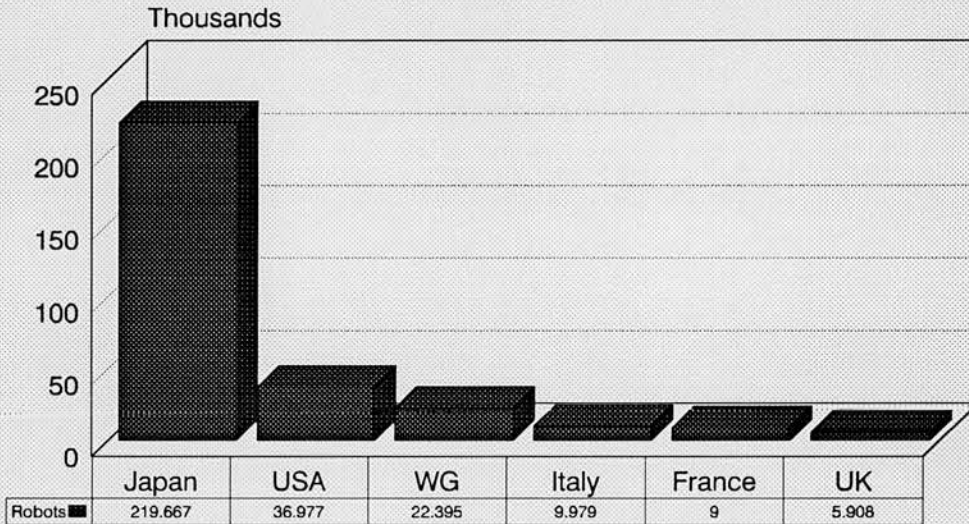
- Japan's engineering resources;
- Standardization; and
- Information flow.

Engineering resources

Japan has made massive investments in engineering and technical training. Although technology and science are unpopular subjects for study among some of Japan's trading partners, technical literacy in Japan is more diffuse than anywhere else in the industrial world. Japan boasts 5,000 technical workers for every one million people, in comparison to 3,500 and 2,500 per million in the US and former West Germany

respectively. Moreover, the degree to which Japan has added industrial robots to its resources far outpaces the rest of the world combined.

**Figure 5.2 Industrial Robots Selected Countries
Comparisons End 1989**



Source: Japan Robot Association, Anzai (1990)

Standardization

Japanese engineers harness their creative skills to construct effective products from standard catalogue components, and are reluctant to specify bespoke components. In this way the costs are drastically pruned.

Information flow

Japanese companies enjoy close relationships with their suppliers, sharing secret information regarding product plans and delegating the manufacture of sub-assemblies and -systems to them. Staff may also be shared to ensure efficient technology transfer for specific ventures. However, the Japanese have not been able to transplant this new product development performance to their foreign operations, and clearly the structures and close manufacturer-supplier relationships that exist and operate so effectively in Japan do not exist to the same degree elsewhere, or are less effective.

The high rate of product churning activity confuses foreign MNCs. While it makes sense to the Japanese, to Western observers it appears that Japanese companies are wasting vast sums on new products, the vast majority of which fail to match market

expectations. Foreign firms commonly expect Japanese product development costs to be higher, but they are lower than for comparable activity in the West, a confusion that is partially explained by the fact that Japanese companies are motivated primarily by market share and growth rates rather than profit. MNCs involved in joint operations or projects should be warned that this critical difference frequently causes problems between JV partners: Rather than increase prices and generate greater profits, the Japanese JV partner would be more inclined to forego the increase to improve market share.

High speed response

On all fronts, Japan is a country of rapid change: Japanese companies develop their technology faster than Western firms (are accustomed to); hence, to hold position in Japan requires great initiative and effort. The swift pace of new product activity means that the Japanese customer is one of the fastest new product adopters and rejecters in the world. Market penetration rates for new products are much higher in Japan than in Europe or the US: new goods introduced tend to record high consumer trial rates, and any new product successfully introduced and subsequently able to hold its position frequently reaches its peak within two years. Although Japan also has a higher product failure rate, if a new product becomes commercially viable, the rate of penetration is not only high but significant levels can be reached two to three times more quickly than in the US or European markets.

This shifting market scenario serves to hone Japanese creativity and reinforces the product development focus. Product innovation combined with high consumer trial rates results in short product life-cycles, for example zero to peak and back to zero again within four years. Western companies exhibit a much slower reaction time. When they see an opportunity worth reviewing, they typically go through a two- to three-year development process; during which time the Japanese strategic window may close. MNCs must remember that product success is also dependent on being able to establish wide distribution coverage for a new product — and to do so quickly. Premature exposure without a fully operating distribution network will act as a magnet for domestic Japanese competitors.

Successful foreign MNCs have therefore recognized the need to commercialize new products quickly in Japan, and are focusing on ensuring rapid distribution coverage. As long as exposure is small, there is less likelihood of the product being picked up by local competitors. However, if volume grows and the foreign company is unable to expand its distribution coverage at a comparable pace, requests from potential distributors could

draw formidable competitors into the arena. Moreover, having established its product presence, the foreign company will find it more difficult to develop or even hold its position; since by that time any unique positioning will have been eroded by the entrance of others carving out brand and distribution franchises.

Source: Interview materials

A key message of this thesis is that product strategy must focus on proprietary concepts and/or positionings that can be developed dynamically. Once brand values have been established, the concept must be extended and plans put in place for the speedy introduction of brand extensions — all of which calls for huge investment and attention to quality. Obtaining an understanding of the standards required of production management in the originating country is a major task frequently commented on by MNCs interviewed; the most effective solution being to develop direct relationships with plant managers.

Marketers should also consider harnessing their "foreignness" where appropriate, focusing on product-specific, or at least product-origin specific concepts, for example Swiss detail, German quality engineering, French sophistication, Italian flair and so on. In some areas this may be the only point of difference, but it should not be underplayed. Both Shiseido and Kanebo, for instance, have lost a significant share of the department store business to foreign products, which now constitute about 60% of the *depato's* cosmetic sales.

5.5.4.8. Manage The Communications Process

As in any other developed market, considerable attention must be devoted to communications in Japan. It is particularly important for advertising to speak effectively to the consumer, to present a corporate image promising quality, and to bond the company with communities of various types. Direct channels of communication with the consumer are also necessary.

5.5.4.8.1. ADVERTISING

All communications are worthless without the logistical support of distribution. When Asatsu Inc. was appointed by Apple Computer Corp. to handle its advertising in Japan, the agency's international director flew to California and requested that Apple delay any further Japanese advertising for two years until its distribution position had been strengthened. This is unusual in the advertising business, since agencies frequently have difficulty persuading new clients to spend their declared advertising budgets. However, Asatsu was concerned that advertising then would do more harm than good to the Apple image; it would be counter-productive to build awareness and favour with consumers if these consumers were likely to meet difficulties in locating Apple distributors (or if suppliers were inadequately stocked and supported).

Interviews with advertising agencies and their clients confirmed that the Japanese seem often to prefer emotion-based advertising. A self imposed cultural restriction discourages Japanese advertisers from being comparative, naming competitors, and generally adopting the more scientific techniques used elsewhere. Nevertheless, according to Asatsu Inc., during the last five years there has been some convergence between Japanese methods and US hard-sell techniques, each borrowing from the other. However in May 1991 that agency developed problems in placing US originated Pepsi advertising. Tokyo's 5 major television networks refused to continue airing Pepsi's M. C. Hammer spot, claiming that Japanese consumers feel uncomfortable with its comparative advertising approach. Comparative advertising is often unpopular with major Japanese advertising agencies that tend to have more than one client per industry. The implication is that Pepsi's spot will jeopardise network relations with Coca-Cola, which spends a considerable amount on television advertising. TV Asahi decided not to air the spot because it feared viewers would interpret the spot as slander.

The importance of using advertising in Japan as part of a global strategy is well illustrated by the experience of Alfred Dunhill, the up-market male clothing retailer. With 80% of Dunhill world-wide sales made to the Japanese, little wonder that when Dunhill selected a new advertising agency it began the selection process in Japan. Asatsu, the Japanese agency, was chosen and Dunhill then set about determining the world-wide agencies with which Asatsu was to be networked. In this way, BBDO, one of the world's largest advertising networks, was eventually retained to support the Japanese concern.

The execution of advertising strategy is crucial to overall strategy. The differentiated positionings it establishes can help fend off competitive threats. Bristol-Myers (BM), for example, produces a brand of antiseptic lotion called Sea Breeze that dominates its product category. Sea Breeze is based on a very simple formulation containing 43% alcohol, quite capable of being easily imitated by any serious competitor, which is what several major Japanese competitors have done. However, the domestic companies have thus far failed to make an impression in the marketplace, where effective advertising (see below) has established Sea Breeze in a proprietary position. It still dominates its sector, with more than 70% market share.

In the US, Sea Breeze is used primarily as an astringent to clean the face and is advertised as such. In Japan, the product is positioned differently, and as a result the product is purchased mainly by young people, especially males, as an after-sun skin cooler. To support this positioning BM developed a unique advertising style that it has used consistently for a number of years. The advertisement features a young male on a surfboard and wind surfer jumping the waves; the execution was described as highly dynamic, with a very distinctive voice-over by a well-known disc-jockey. Japanese consumers may not have heard of BM, but research and sales figures indicate they frequently recall the name of Sea Breeze.

Another example of an effective positioning strategy is Polaroid, which

languished for 15 years with a 5-6% market share — primarily because it was being squeezed by consumer comparisons with Fuji, Konica and Kodak products. Moreover, the production speed offered by the new processing companies was diminishing Polaroid's "instantaneous" value. Asatsu proposed amending Polaroid's positioning to focus on "imaging stationery" for business — which moved it away from direct confrontation with Fuji et al. The notion of a visual memo underpinned the new Polaroid communications program, and this Japan-originated concept was subsequently so successful in turning the sales curve sharply and quickly upwards that it has now been adopted outside Japan — which again shows that strategies can transplant from one market to another. However, as was true in this case, whether the direction be from outside Japan to inside or vice-versa, strategies must be tested in and/or adapted to the market concerned.

Communications, it was stressed by respondents, like all aspects of marketing, must fit the Japanese context. They tended to emphasize, and perhaps over stressed, that Advertising in Japan has some interesting features, especially concerning its heavy emphasis on images, using the symbolic and highly visual rituals that play a major role in Japanese social, cultural and religious events. On one hand, daily life, sports events, parties, even honeymoons, have a formal, ritualistic content on which advertising makes great play; on the other, the unclear connection between words and images (or between form and content) had experienced marketing executives saying that if they turned down the sound on the television set, they had difficulty guessing what type of product was being advertised. Yet what is also true is that products are being churned out at such a high rate and experiencing a high attrition rate so that much advertising is quickly discontinued and without repetition there is no reinforcement of the connection between words, meanings and images.

This oblique approach to advertising is not, however, unique to consumables and has been employed in other sectors, such as cars. For example, when a major

Japanese car manufacturer (Nissan) attempted to enter the luxury car market in the US with its "Infinity" model, it ran a series of teaser advertisements showing haystacks, birds flying over the horizon and beautiful country lanes with leaves falling down. Consumers may have been totally confused what it was selling, but nevertheless the strategy worked in that both the product and its advertising were successfully differentiated from the rest of the market. However, it must be stressed that occurrences such as these are events that people tend to remember and in repeating these events on this page I am in danger of aiding the process of *Nihonjinron*. To counter this bias, it must be said, that analysis of everyday advertising spots reveals a great deal, if not more, tedious, non creative output than appears even on US television.

This emphasis on placed, by respondents, on distinctive Japanese mood advertising makes it very difficult, they claim, for expatriate MNC managers to make meaningful contributions to the advertising debate; they often have as little expertise in making the correct creative judgements as a non-industry outsider. Is a subtle or visual pun the best way to make a communicative statement? A sure answer, as MNCs pointed out, requires a high level of appreciation of Japanese language and culture. The Japanese advertising industry spawns some extremely good creative output, which results in impressive award-winning advertising. Since both content and form are subject to rapid change, with zany off-beat humour often playing just as important a role as image and aesthetics, it is difficult to summarize precisely on what this creativity is based. Obviously, as a general advertising rule, a pitch towards "the newer the better" continues to hold, but foreign MNCs should understand that corporate formula advertising of the kind that is successful in the West does not necessarily work in Japan (even though Japanese examples may have worked successfully outside Japan).

In this context, long-term relationships in the creative field pose a major difficulty in Japan. The consumer market is changing so fast that some MNC

managers believe they cannot afford to build a long-term relationship with one creative department because they perceive that it produces a certain style that may not keep pace with product changes. Of course, long-term relationships are beneficial in any aspect of doing business in Japan, but the onus is on the agency to keep its creative output fresh. Fortunately, the agencies themselves are alert to this problem (after all, it is not limited to Japan), and organize their creative teams to work on different types of accounts; in that way they spur creativity.

Philip Morris, for example, has produced some successful advertising for Lark, its flagship brand in Japan. The tag line for the Lark campaign was "Speak Lark, the password for mildness" and featured a cops-and-robbers movie starring the US actor James Coburn. Coburn was pictured in numerous life-threatening situations, and each time he would succeed in getting through a heavily guarded door by giving the password and producing his cigarette pack. This sort of advertising is effective in Japan because it is both product- and image-driven; in other words by associating the product with both success and Western imagery it manages to convey several positive things about the brand.

The emphasis on mood and theme advertising, perhaps overstated, is not a rigid requirement; as Japanese advertisers have expanded their international experience, they have taken account of how US-style "hard sell" advertising works. Industry experts interviewed believed that the last six years have seen some convergence between Madison Avenue and Ginza styles of advertising: Japanese advertising has experimented with hard sales; American advertising has been more image-driven. Whatever the approach, the advice for MNC advertisers remains: first, know the consumer and understand the relationship that the consumer has with the product, second, try to appreciate how the consumer process advertising and uses associated imagery to support the product and brand choice.

Most of the interviewees agreed that to build market share, advertising expenditures should generate a share of advertising voice twice that of market share,

thereafter it is necessary to maintain a share of voice equivalent to market share. It was their experience that as soon as they attempted to milk their brand positions by reducing expenditure below this level, market share fell away quickly.

Conclusions on advertising strategy are fundamental:

- Understand the consumers' relationship with the product
- Understand the consumers use of advertising in the context of the product in question
- Select a style of advertising that addresses the marketing problem and sets the brand apart.

5.5.4.8.2. CORPORATE IMAGE

A key lesson for major MNCs entering the Japanese market is there is a major difference between Japanese advertising and that of other markets just as there is between the importance of corporate image and its interrelationship with brand advertising. For example, in most Western markets, consumers are unaware from which corporate source their preferred brand originates. In Japan, however, the consumer expects to know what kind of company manufactures the brand, because the consumers' perceptions of the organization form a major part of their brand evaluation criteria. This vital point was mentioned by Clark (1979), who emphasized the predilection of the Japanese consumer for status and ranking. In other words, if the consumer buys a brand from Kao, he/she understands that it will be of outstanding quality and reputation, but if manufacturers push individual brands and neglect the image of the corporation from which they derive, the quality perception will not be conveyed to the consumer. For example, when P&G began operating in Japan, it promoted individual brands, as it had in the US and elsewhere without mention of corporate ownership.³⁷ It learned, however, that the consumer

37 See Box 5.13

was interested in the type of company from which the brands originated, and nowadays its Japanese brand advertising signs off with the information that the brand is owned by Procter & Gamble, displaying the P&G corporate logo in full screen. P&G found this a difficult lesson to learn: Being so enmeshed in the Cincinnati way of doing business, its US-style advertising was yet another way in which it seriously retarded its progress in the Japanese market.

This issue of corporate image cannot be over-stressed. Companies are becoming more image-conscious: During 1989, according to the PR company Cosmo, some 2,000 companies in Japan changed their logos to enhance their corporate images. In particular, large companies that previously experienced few problems recruiting staff now find it difficult to recruit the desired calibre of people; hence, they are spending time and funds trying to address their image problems.

5.5.4.8.3. SPONSORSHIP

Given the premium consumers place on the corporate image, sponsorship — of television programs, and a variety of events and activities — are popular. However, since these deals are so expensive, marketers must be careful how sponsorship plans are implemented. Much of the sponsorship in Japan inevitably involves major corporations (the consumer appreciates that almost any company can advertise; with sponsorship, it is the company's reputation that is being highlighted). Associating corporate image with a television program or event means the company must be confident that the program and its underlying message is transmitted appropriately. Of the MNCs interviewed, both P&G and Amway in particular are heavy users of television sponsorship. According to marketing manager, Jerry Rosenberg, Amway places great importance on its image as a direct selling company.

We try to show what kind of company we are, what kind of image we have, what we are doing for society. We do this not only through television advertising and media advertising, but also through a very active corporate sponsorship program.

Amway's intention is to create as positive a public image as possible; it has therefore sponsored such events as The Cleveland Orchestra concerts in 1990, and over the years has also been active in sponsorship of ballet and sport. On the environmental front, it is setting up an Amway nature centre in support of various environmental activities throughout Japan, and its distributors sell products that specifically generate money for this effort.

Individual brands account for very little sponsorship activity, the problem with brand sponsorship is that it is necessary to find a sponsorship opportunity that aids a brand's positioning. Companies therefore have to assess whether a certain event can be advertised, whether footage from a sponsored television show can be harnessed in any way, and what kind of television ratings the programs are likely to get. It is much more complicated than simply buying advertising on the basis of GRPs (gross rating points) or how many consumers are likely to see the campaign in a given period.

5.5.4.8.4. MEDIA

In some respects, Japanese advertising is less restricted than in comparable developed markets. For instance, cigarette advertising is still possible on Japanese television (see Chapter 2) but as was mentioned in the previous chapter, the numbers of slots are being reduced, competition between JT and imported brands is fierce, and as a result, tobacco company advertising rates are escalating much faster than industry norms (45% during 1990; 34% the year before). As far as tobacco advertising is concerned, the media operate in a sellers' market. Between 1985 and

1989, for instance, cigarette companies experienced an increase of 220% in actual media costs.

Since they are restricted in what time slots they are allowed to buy; tobacco companies are unable to engage in L-shaped buying, in other words buying over the weekly schedule off-peak and on-peak. Sometimes the relevant target audience can be reached by buying into a particular television program with a known following, but the benefits of such a choice are likely to decay with time and it is probable that the advertiser will have to expand its reach by combining program buying with spot buying.

Many MNC managers considered television advertising expensive, and — along with radio — less effective than it used to be. Part of the reason for this is the sheer amount of advertising clutter in the Japanese market. As discussed in Chapter 2, one hour of programming contains seven-minutes of advertising which is distributed according to the type of programme. In these advertising breaks most advertisers buy 15 seconds of time with the result that cigarettes, cars, alcohol, household products, whisky, tobacco and so on appear in the same slot, and with so many commercials in a single slot, some interviewees said they did not — or could not — object to competitive brands being shown in the same slot, provided they are not in sequence (note that Japanese agencies can work for competitors without the usual arguments about account conflict). In any case, the length of the advertising breaks allows many consumers to divert their attention to other things, so they are unlikely to see competing ads in sequence. The advertiser must focus more on the question of strong impact than on competition, concentrating on the creation of eye-catching, attention-grabbing commercials.

5.5.4.8.5. SALES PROMOTION

Sales promotions are highly localised in Japan: Companies will run promotions for, say, a five or 10-store chain in Osaka. Since promotions can be scheduled at any time in Japan, unlike in the US, foreign firms have learned to minimize the overall cost of these tailored events. However, regulations govern what can and cannot be offered.

In the US, offers, premiums and other give-aways are commonplace. In Japan, either open or closed lotteries are permissible, but there are limits on how much prize money can be offered, based on the level of sales expected during the lottery period. Moreover the value of premiums is limited by law up to a maximum of approximately 20-times the value of the purchase is allowed. Couponing is a massive business in the US, but is impossible to implement in Japan: newspapers do not accept them; consumers have no habit of using them; and no redemption mechanism exists.

Japanese regulations limit the amount of money that can be spent on promotion by controlling the relationship between prize bonuses and the value of the product that is being promoted. While manufacturers avoid very high-cost promotions, the restriction on trade inevitably makes the industry less competitive. Some loss of trade may be recouped by price discounting, but in the long term this is bad for brand development. A typical way of promoting frozen foods products in Japan is, at the end of each month, to cut prices by 50% for three days. In this way the stores clear out inventories. However the inevitable response to these practices (both in Japan and elsewhere) is for the consumer to delay buying until the 28th of the month.

In a bid to avoid this, Ore-Ida asked the trade to remove its frozen food products from display during these promotional periods. There was some resistance, but in the main the request was complied with and Ore-Ida have either taken the product off the shelves or simply not marked them down at month-end.

Heinz executives at Ore-Ida were surprised at the compliance, but their aggressive promotion of good quality, backed up by television advertising, helped to generate considerable retailer interest in the product, which, in turn, generated sales.

5.5.4.8.6. PUBLIC RELATIONS

Foreign MNCs must also learn how to forge good relations not only with the consumer but with a variety of constituencies, be they business partners, government, or the business community generally. In each case, it is necessary to assess whether the company is communicating or building the relationship in the most effective way. In this respect, public relations is becoming an increasingly important element in the communications mix. Increasing numbers of manufacturers are approaching consumers directly by way of the media, but the relationship between the actions of the consumer and the presentation of a good corporate image is an equally important — if less tangible — factor in business success, since the Japanese consumer is so aware of a brand's corporate origins.

There are many aspects of public relations harnessed in the Japanese market. Companies such as Coca-Cola and IBM have good reputations in Japan not only because of their products, but because they are major players in corporate affairs and render themselves attractive to organizational buyers as well as consumers. As anywhere else in the world, PR executives must develop close relationships with the media in Japan to ensure the press is well briefed on their client companies and products. However, MNCs should remember that communications address only communications-related issues: clients of PR companies, both Japanese companies as well as foreign MNCs, often confuse communications with background substance and make unrealistic requests of the agency. The agency is then obliged to point out that the client's problems may stem not from image, but from an inappropriate strategy for Japan.

Public relations can do little to correct fundamentals such as pricing,

distribution, and lack of a strong team of people to execute programs. PR comes into play only when companies decide they must speak up and tell the public who they are or explain a difficult situation or strategy. Japan is no different to the rest of the world in that business is finding it increasingly necessary to speak out. When an oil company is involved in a major pollution incident, the public wants to know who the management is and what corporate philosophy is followed. All major foreign MNCs in Japan want to be recognized as good corporate citizens, corporate citizenship being closely linked to social responsibility.

Public opinion can have effect a company's fortunes, but spending money alone will not guarantee that the company becomes a corporate citizen. It is not sufficient, for example, simply to make a donation to a business school or some other worthy institution. The issue must be handled more intelligently and through a range of approaches, United Airlines (UA), for instance, has strengthened its claim to corporate citizenship by taking a long-term approach. Each year since 1984, it has given away 78 flight tickets to scholars on the Fulbright Scholar Program, its premise: one day these winners will be important in Japan, and benefits will accrue to UA.

5.5.4.8.7. DIRECT MARKETING

Direct marketing is an optional supplement to mainstream marketing activities. It can be independently used as a basis for market entry, and it has limited exposure to investment risk. As such, it has been used in Japan for approximately 100 years. The first organizations to do so are still the largest players in the arena: Mitsukoshi, Seiyu — the Japanese department store equivalents of Sears (they have also adopted a Sears-type catalogue).

Japan's direct marketing industry has been growing at roughly 15% per annum for the last five years. It currently generates revenues of US\$5-8 billion and growing. However, a number of factors hamper its development. For example,

direct marketing in the US and Europe has stemmed from magazine publishing, with publishers assembling large databases of subscribers to use as mailing lists, whereas in Japan, few magazines are sold by subscription and, since most are sold by kiosks, news stands and book stores, mailing list activity is limited. Databases do exist in Japan, but the infrastructure for support and development is not as sophisticated as in the US or Europe. Moreover, database companies have developed their data from scratch, which means they do not possess accurate reader profiles against which to match advertising targets; market segmentation is therefore difficult to pinpoint.

On the purely technical front, other drawbacks are Japan's extremely high postal and telephone rates. Because of a reluctance to offer volume discounts, not only is postage at net rates between four and six times higher than elsewhere in the West, but free dial (1 800-type telephone numbers) does not receive bulk discounts as in the US (where it garners up to 80%). The issue is currently under negotiation with the Ministry of Postal Services, and while some changes may be proposed, the maximum discount under negotiation is still a modest 25%.

In the US, companies such as AT&T and the US Mail encourage direct marketing. Their discounts have increased the number of companies using the mail system overall, even though there is a certain loss of revenue per unit of mail. While this view is not yet accepted by the Ministry of Postal Services in Japan, many companies are becoming involved with direct marketing, not only in the consumer arena, but also in the area of direct business to business communications. These firms are becoming more interested in the potential of customer lists and even renting their own lists to non-competitive companies.

However, MNCs should be aware that these lists may still be difficult to access: Many computer databases in Japan have been built on the phonetic rendering of Japanese names and it is difficult to link the phonetics with the proper characters. Moreover, since many Japanese names can be read in more than one way, it will

take some time for software development programs to solve the problem of personalization. Similarly, fax marketing, although much cheaper than using the mail, is slow to develop in Japan; and, to date, only two companies are using a fax market system — sending "broadcast faxes" to the numbers in its database.³⁸

The best opportunities in direct marketing are undoubtedly the short-term ones, especially for those companies that have not yet established a traditional distribution arrangement. Direct marketing can be an immediate and effective option in the general spectrum of marketing choices: It encourages flexibility and allows the company to engage in various types of price testing and market research before fixing its marketing formula.

In 1990, Philip Morris launched its campaign for Merit, its new cigarette brand. Advertising was placed in newspapers and magazines inviting consumers to send the name of their preferred brand to Philip Morris, and in return they would receive a free pack of Merit. In this way, Philip Morris built up a 900,000 person database over a two-month period. The Washington Wine Industry is another example. Since the group had no business in Japan before 1990, Market Makers Inc. linked it with a firm organizing sales promotions for car companies. Together they developed a gift-giving program, in which customers who bought a car from the dealer were then mailed a bottle of wine to remind them that the dealer had not forgotten them. This was Washington Wine's first step into the market, and its effectiveness is still being tested.

38 Since it is theoretically possible to communicate with 10,000 potential clients overnight, this may prove to be a significant facility for stores and retail businesses with an overstock of items, for special sales offers, or for short-term seasonal discounts.

5.6. SUMMARY — FOREIGN MNC RESPONSES

We looked at some of the obstacles which foreign marketers have faced in attempting to develop their positions in the Japanese market and the alleged obstacles to its penetration were considered. Considering the amount of publicity that has emanated from the US and its Strategic Impediments Initiative, it was expected that much evidence of unfair practice would emerge, but this was not so. Although instances were located of past malpractice, in many cases they were dispelled as historical phenomena — at least for consumer products markets — but the obstructive image has lingered.

Obstacles such as were identified are not insurmountable but they do represent serious difficulties that would deter the feint hearted. They are primarily financial, relating to the immense cost of doing business in Japan, but these are not selectively aimed at foreign companies and equally applicable to Japanese companies.

- Many instances have been cited of companies that have succeeded in overcoming the difficulties presented in the Japanese market. Foreign companies have penetrated at the luxury end of the consumer goods business, just as they have succeeded in winning consumers of everyday consumables. They have done so primarily by determining approaches that suit the contexts of their products and organizations. To make their entries into the Japanese market has required imagination and commitment to deal with the difficulties that confronted them, but they have successfully entered and are carving out significant positions in the marketplace.
- Entry strategies are rather crucial and what may be appropriate in the early days may soon be outlived. Hence the advantage of having a strong supportive corporate effort that is able to take a long term view is a factor brought into sharp relief. If the company can see ahead to where it wants to be, then it may be wiser to consider direct investment even though the road to pay backs may be painstakingly slow. Some MNCs believe that a Japanese presence is so crucial

as to condition their corporate behaviour world-wide. They assert that if they can compete in Japan then they will be able to compete anywhere, if they cannot compete in Japan then they will be vulnerable to attack in other markets that Japanese companies choose to enter.

- Winning and maintaining distribution coverage is a crucial activity in Japan just as it is elsewhere. Yet, instances have been cited of foreign companies which are grappling with the difficulties and are performing gallantly. However, their modes of entry had to be tailored to resources, ambitions and opportunities and of course nothing could be achieved without being able to hire the staff that are essential to drive the business. In so doing, cognition had to be taken of the expectations of Japanese employees and recruitment and payment packages be determined on a realistic basis.
- A MNC's Japanese distribution strategy depends on the nature of the company, the level of resources it can commit to the market, and the time horizon it envisages. Looking for a quick entry via the *sogo shosha* is often not recommended. If a market opportunity exists for the product, and if an MNC is prepared to back that product with adequate communications support, then distribution is possible. On the other hand, if a company is merely looking for a "quick hit", establishing a viable distribution arrangement will be much more difficult to achieve; as this thesis has indicated, distribution agreements in Japan are usually more long-term than foreign MNCs are accustomed to. The Japanese distribution system tends to favour long term relationships. So, foreign companies will be pressurised into long term commitments. Hiring and firing of distributors brings with it a bad reputation that will work against the foreign company in the longer term. Therefore foreign MNC managers are urged to continue with caution, since any long-term commitment also carries the risk that commitment to a poor distributor will result in stifling of the brand's potential.

- While many foreign MNCs had entered the Japanese market through JV arrangements, some of these relationships were wrought with frustrations that accompanied the benefits. The major benefits which JVs do extend are manufacturing and distribution; the latter being a difficulty for many foreign MNCs. Recruitment of high calibre staff is a key problem as foreign companies are regarded lower in the pecking order than are indigenous employers.
- Often the decision to enter the Japanese market has involved the shedding of some hitherto fixed assumptions such as the discarding by Levi Strauss of its belief that all Orientals must be similar and that Japan could be serviced adequately from Hong Kong. Yet marketing in Japan involves two-way traffic and many of the practices which foreign companies have imported into Japan have been proven to be successful such as the interventionist approach of Levi Strauss to wholesaler inventories and the research driven approach of Nippon Lever.
- Above all the vast array of products coupled with the rate at which new products are being introduced onto the market means that marketers cannot remain complacent about their market share positions. It is extremely difficult to "milk" successful products by cutting back on advertising expenditures because rapid decline in market share sets in very quickly. Because of this there was general agreement that advertising share of voice should at least equate with market share.
- One ingredient that deserves to be stressed often is the necessity to research the fundamentals of consumer behaviour in the Japanese market. Many instances have been cited of companies that have done well by understanding the consumer; for example Nippon Lever approached the market in this way by questioning all of its fundamental assumptions about the consumer. Unilever attributes much of its success in Japan to this rigour. Instances were also highlighted, Procter and Gamble for example, of how companies had performed

badly as a result of neglecting to understand their consumers.

- Foreignness, in many cases, was harnessed as a positive force, especially where it was associated with quality, because if there is one overriding requirement for marketing in Japan then quality is the one. The Japanese consumer is, above all else, fanatical about quality. One way this quality concern is manifest is in packaging standards that are far and beyond superior to those which apply in western markets, and, as is true in many markets, packaging is frequently even more important than content. This is especially true in the huge gift giving segment. Some businesses have been built around this practice while others have adapted product forms to accommodate it. This is just as true in everyday consumables businesses as it is in the luxury sector. The Japanese market offers immense opportunities for creative expression with product concepts and communications. However it is essential to relate strategies to Japanese values.
- JVs have offered many foreign MNCs opportunities to gain experience in the market but frustration with the Japanese partner is common and often followed by attempts by the foreign companies to wrest control from the JV companies to execute their strategies without, as they perceive it, encumbrance. Perennial concerns such as distribution and staff can be dealt with, but they are likely to test even the most talented MNC managers.
- Competition from Japanese companies in the form of product emulation is fierce. Me too products are likely to appear sooner rather than later. Efforts must be made to plan line updates to maintain leadership when it exists.
- Although Japanese advertising is generally regarded to be more mood — and image-based than in the West, much Japanese advertising is purely commodity-oriented. Neither is necessarily more successful, but MNC managers are strongly advised to discard their home-market assumptions about effective advertising. *Japanized* advertising approaches, i.e., advertising and sales promotion campaigns that emulate Japanese methods, should be considered

alongside other potentially suitable models. Moreover, MNCs must recognize the importance of corporate identity; brands alone do not necessarily convey the level of quality and tradition necessary to win consumer support. Japanese consumers appear increasingly concerned about learning about the corporate stables from which brands emerge. Direct marketing offers limited opportunities to test the water while limiting financial exposure. It also represents a powerful vehicle to be included in the communications mix.

- Meeting Japanese quality expectations is a problem to many foreign companies choosing to import into Japan, as they come across difficulties in persuading their production teams that home market specifications fall below Japanese requirements. The ability to successfully create quality standards goes hand in hand with viewing the entire business from a Japanese perspective. This is true of manufacturing just as it is of advertising. What is required is a recognition that Japan is just not "another export market" and that Japanese standards and tastes are often of a higher order and expectation. To gear up to meet them is often to gear up to develop competitive advantage for other markets along with the company's own domestic market. This recognition must be made to pervade all areas of the enterprise.
- Despite the multiplication of potential payoffs, rising to the challenge of Japan's markets does not come cheap: investment in Japan requires substantial resources and a willingness to commit to long-term development and relationship-building. Research conducted for this thesis illustrates how forward-looking firms that have established a significant presence in Japan are those now reaping the rewards.

One of the issues that has emerged in this chapter is the degree to which Japanese marketing is different from marketing elsewhere. It has been illustrated that the differences are subtle rather than discrete. The issue has been introduced of how companies have had to adapt their methods and to what degree they could

successfully import their expertise into the Japanese context. This topic of standardization versus adaptation is well known in the literature; so in the next chapter an attempt will be made to appraise the companies, against a literature based framework (Quelch and Hoff, 1986), on which the qualitative findings presented in this chapter were based. Before doing so, an attempt will be made to draw some strategic management implications from the study. This will be done by comparing the companies' approaches toward the gaining of competitive advantage by using a framework derived from one of Porter's (1990) more recent works.

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CHAPTER 6 - ANALYSIS OF STRATEGIES OF THE SAMPLE COMPANIES

6.1. INTRODUCTION

In this chapter, as was mentioned in Chapters 1 and 3, two analytical frameworks will be harnessed against which the companies in the sample will be appraised.

These assessments are based on overall impressions gained from the interviews together with other supporting data that was collected. Obviously the usefulness of such a view is limited by the fact that interviews — even depth interviews — based on one point of contact with a business can at best only give a limited view of a multidimensional situation. And, while such an approach can be criticized for its lack of scientific substance as well as its inherent bias, any such bias is likely to apply across all the judgements. Furthermore, (as is mentioned elsewhere), there is little in the sphere of the social sciences that is value free (Foucault, 1970). However, a consistent bias does not necessarily defeat the purpose of the assessment, which is to structure the qualitative findings on these different companies presented in the previous chapter within the context of recognized frameworks.

Nevertheless, to attempt to minimize inherent personal bias, this assessment was shown to the consultants that were included in the sample of interviewees and their views were sought of the judgements that had been made; in the main consensus was obtained, but in some instances reappraisal of the classification was made.

The first framework is concerned with the approach that the sample companies adopted toward achieving competitive advantage and is based on a template presented in *The Competitive Advantage Of Nations*, (Porter, 1990), a work in which he argued that the competitiveness of the nation is based on the collective competitiveness of its industrial and commercial concerns. This work was

considered particularly apposite due to the contemporary interest that the Japanese economic success has attracted. Given that, according to Porter (1990), Japanese success has stemmed largely from the competitiveness of the *kaisha*, there is considerable potential value in lessons that might be drawn from this study of foreign MNCs: companies that have, in the main, been successful in competing with the *kaisha* in their home market.

The criteria of how competitive advantage is achieved (Porter, 1990) are listed in section 6.3 below and a subjective assessment of the sample companies is presented in Tables 6.2 to 6.10. In this way, the sample companies have been subjectively assessed on the priority that they appear to assign to innovation and change. Although the sample companies were categorized High, Medium and Low, these classifications do not imply evaluations of merit; they are merely nominal labels.

In the previous chapter it was mentioned that when MNCs engage in global marketing one of the critical decisions they have to grapple with is the issue of standardization of methods and products versus adaptation to foreign market requirements. Moreover, in the literature, much stress was placed on the need for Japanization, an alternative term for adaptation to the Japanese market context, so, after appraising the sample against Porter's criteria an effort was made to appraise and classify the major companies in the sample by drawing on a framework established in a major work on this topic (Quelch and Hoff, 1986). This was achieved by using qualitative judgements to allocate the companies to the respective categories established by Quelch and Hoff (1986). As with all such categorizations the boundaries between one category and another may be blurred and involve some degree of overlap, similarly there is some overlap between the examples that are used to illustrate the findings.

6.2. THE COMPANIES

Of the companies about which data was collected, those that were actively marketing products, i.e., excluding facilitators such as consultants, advertising agencies, distributors, and so on, have been selected for analysis and coded as follows in Table 6.1.

Table 6.1

Sample companies analyzed

a	Amway
b	Avon Products Co. Ltd.
c	Bristol-Myers K.K.
d	Coca Cola (Japan) Company Limited
e	Eastman Kodak (Japan) Ltd
f	Nestle/Friskies K.K.
g	Gillette (Japan) Inc.
h	ICI Japan Limited
i	Johnson & Johnson Japan
j	Kohler Japan K.K.
k	Levi Strauss Japan K.K.
l	Heinz/Ore-Ida.
m	McDonald's Company (Japan), Ltd.
n	Nippon Lever K.K.
o	Philip Morris K.K.
p	Procter and Gamble Far East Inc.
q	R. J. Reynolds/M. C. Tobacco Company Limited
r	Revlon
s	Rolly Doll Inc.
t	Smith Kline Beecham
u	United Airlines.

6.3. PORTER'S (1990) FRAMEWORK

As was fully explained in his previous work (Porter, 1990) and reviewed in Chapter 2, the following framework was identified as a potentially valuable basis for structuring some of the qualitative findings of this exploratory research study:

- Competitive advantage grows out of improvements, innovation and change
- Competitive advantage involves the whole value chain
- Competitive advantage is sustained only through relentless improvements
- Sustaining advantage demands that its sources be upgraded
- Sustaining advantage ultimately requires a global approach to strategy.

Furthermore, Porter (1990) asserted that companies should actively seek out pressure and challenge rather than try to avoid them. In doing so he proposed that companies ought to:

- Sell to most sophisticated and demanding buyers and channels
- Establish norms of exceeding the toughest regulatory hurdles or product standards
- Treat employees as permanent
- Establish outstanding competitors as motivates (Porter, 1990).

As was mentioned earlier, although the assessment that follows is largely impressionistic, the results were shown to the consultants that were included in the sample of interviewees and their views were sought; in this way consensus on the judgements was obtained.

6.3.1. COMPETITIVE ADVANTAGE GROWS OUT OF IMPROVEMENTS, INNOVATION AND CHANGE

What is apparent from the interview material is that those foreign companies that appear to be making some success out of their efforts to penetrate the Japanese market have learned that it is necessary to innovate and be prepared to continue doing so. For example, of those companies that were assessed as "High" in Table 6.2, both Amway and Avon Products had launched into an arena new to both and which was also new to Japan: nutritional products. They were both bringing a variety of new products to market. Bristol Myers was especially concerned with maintaining an innovative edge, it was attempting to obtain its own Research and

Development facility to ensure that the Japanese operation became independent of the parent in this regard. This was mainly because, at the US end, their colleagues' unfamiliarity with the Japanese market represented a buffer.

No matter how much explaining we do. We always feel they really don't get it.

*Tom Thomson -- President
Consumer Products Group Japan and Korea
Bristol-Myers Squibb Company*

Coca Cola Japan, also rated High, had responded to opportunities that it had identified in Japan and while it was often deliberately slower to enter new fields in the market it had successfully developed a product portfolio quite unlike any other within the Coca Cola world-wide organization. Its major product in the Japanese market is canned coffee dispensed through vending machines — hot in winter and cold in summer.

Eastman Kodak has invested in Japan with the express intent of developing its **innovative ability** (Box 5.4). It saw itself as buying its way into the technological community in Japan where it perceived many of the major world developments were occurring. By so doing it envisaged that its worldwide innovative talents would be enhanced. Only in that way would it be able to face off its competitors in other markets. Gillette had effectively invested its future in the development of its Sensor blade and was attempting to redress its position (in Japan it held only a minority market share, it being dominated by Warner Lambert's Schick) by launching Sensor in Japan immediately after the US launch, but before the European introduction and a long time before launching it in any other Asian markets.

The relationship between competitive advantage with innovation and change was clear from the successful experience of Nippon Lever. It had developed its position with Timotei by queuing up a series of line extensions. In that way, it was able to capitalize on the success of its newly developed brand awareness and fashionable product concept. It responded to competitive threats by leveraging its traditional

brands by introducing them in new formulations and formats.¹ In that way it was able to hold off its potential competitors.

Likewise, similar commitment to improvements, innovation and change was also evident from the success that Procter and Gamble subsequently reaped in the same sector with the introduction of its combined shampoo and conditioner concept: Rejoy. Similarly, to hold its position in that category Nippon Lever was quick to respond and utilize its Lux brand in the shampoo sector with the result that it surpassed the previous success it had achieved with Timotei. On the other side of the account it could be seen that P & G had suffered as a result of its own failure to progress its diaper products quickly enough and thus became vulnerable to the innovative activities of the Japanese competition. To restore its position required it to develop four generations of improved Pampers products within eighteen months.

Nestle possessed a worldwide product policy to innovate on a product basis and in this regard the Japanese market was no exception. Its aim was to provide the Japanese consumer with something new. It has recently ventured into health foods and leveraged its Swiss connections to develop its pasta business. Rolly Doll Inc. based its existence on being innovative, especially in the way that every item in its range was carefully crafted and packaged to meet the nuances of taste presented by the Japanese consumer.

¹ For example Lux was translated from a bar soap into hair and body shampoo as well as body lotion formats.

Table 6.2 Companies Assessed for innovation priority

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd.	x		
Eastman Kodak (Japan) Ltd.	x		
Gillette (Japan) Inc.	x		
ICI Japan Limited	x		
Johnson & Johnson Japan	x		
Kohler Japan K.K.			x
Levi Strauss Japan K.K.		x	
Heinz/Ore-Ida.		x	
McDonald's Co. (Japan), Ltd.		x	
Nestle/Friskies K.K.	x		
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd.		x	
Revlon		x	
Rolly Doll Inc.	x		
Smith Kline Beecham		x	
United Airlines.		x	

Levi Strauss, rated Medium, was not a major innovator in the Japanese market. Its products originated in the US but it went to great efforts to adapt them well to the Japanese market. This dedication to fine tuning promulgated the relocation of its Asian Headquarters from Hong Kong to Tokyo. Also in the medium category RJR management claimed it was an uphill struggle to persuade its US manufacturing resource to gear up its standards to meet Japanese requirements. Where it was innovative was in adapting its strategies area by area and conurbation by conurbation. SKB (rated Medium) was also marketing products based on concepts derived from other markets. Even on this "Medium" basis it had improved its position from number 20 to 13th position in its key arenas over three years.

However, continued improvement toward its stated aim of a top 10 placing may require more bespoke innovation for the Japanese market.

Kohler was rated as having a low innovation priority because it was not originating anything for the Japanese market. In some ways it typified the worst approaches to international marketing. It had the number one product in the US and assumed that there was a place for it in Japan. It did have something that was different — pretty colours and different shapes that were not readily obtainable through Japanese manufacturers. It also had some major minuses with unusual sizes and eccentric (to the Japanese) installation methods, etc.

6.3.2. COMPETITIVE ADVANTAGE INVOLVES THE WHOLE VALUE CHAIN

The value system is the entire array of activities employed in a product's creation and uses, encompassing the value chains of the firm, suppliers, channels, and buyers (Porter, 1990). The value chain is another name for the enterprise's business system. The examination of individual "value activities" can result in an improved understanding of existing or potential sources of advantage over competitors. The value chain, encourages a company to break down the competitive process into its various steps and then seek to add more value at each step than the competitor does (Robert, 1991). Earlier it was indicated that the business system involves two kinds of value activities: primary and support. Primary activities are directly involved in the transformation of inputs into outputs and in delivery and support after the sale. The typical business system has five types of primary value activities: input logistics, operations, marketing and sales, and service. Support activities maintain primary activities — as well as each other — by procuring inputs, managing personnel, developing technology, and providing general administrative functions.

As experience is gained with applying the value chain to a given company,

successively finer disaggregations may be found to be appropriate for some activities, while others may be safely combined (Reimann, 1989). Examining the value chain shows how processes are linked and there are opportunities for quality improvement by the examination of these linkages (Ballantyne, 1990).

Since this study was concerned primarily with marketing strategy insufficient data was collected to make detailed comparisons of the overall value chains of the sampled companies but the impression was gleaned that all of those companies were attempting to be competitive in overall terms and in so doing were apparently showing a high degree of commitment to maximizing their performance over the entire value chain.

One element of the primary value activities that deserves special mention is the extension of credit. This was a key tool in the marketing mix. In most cases invoicing was done through the primary wholesaler who acts very much like an agent of the manufacturer. That primary wholesaler actively supports the sale and distribution of the manufacturers' products. Primary wholesalers have a network of related wholesalers operating in a secondary role. The retailer is given pride of place and appears to be served regardless of the cost. Wholesalers offer standard stock holding, frequent delivery and credit financing and in turn expect extended financing from its suppliers.

One way of adding value to the distribution operation has been the application of information technology to speed up response and secure high levels of service as efficiently as new technologies allow. As was mentioned in Chapter 5, there is much talk of the emergence of Value Added Networks (VANs) in the distribution context. These involve electronic reordering systems (EOS). Retailers participating in these VANs, according to a March 1990, survey numbered about 43,000 in 1989, appear to have doubled (Asano, 1990).

The foreign MNCs in the sample were appearing to add value and establish advantages against their Japanese counterparts by the application of marketing

principles. The leveraging of these strengths may be regarded as a downstream zone of the value chain.

Some examples follow of the thrusts the sampled companies were making on various dimensions of their value chains: Amway and Avon Products (rated High) were both evolving Japanese perspectives and product positionings then working backwards to ensure that their suppliers understood their aims and were capable of delivering the required packaging and product formats. Both companies were leveraging their individualistic delivery systems.

Bristol Myers, as mentioned earlier, was negotiating with its HQ to get total control of its R&D effort to be able to deliver more focused products to the Japanese marketplace. Coca Cola was working synergistically with its bottler and vending networks to put its varied product line "within arm's reach of thirsty consumers." This synergy involved flows of information and ideas in both directions — from and to its bottlers. This has resulted in a highly distinctive product line with a character that reflected the requirements of the Japanese market. Eastman Kodak was placing great store on becoming an integral part of the Japanese scientific community and looking to these efforts as a source of new thinking and ideas that could be fed into the worldwide corporation. Nestle/Friskies had always been strong in the "in store" promotional area and was able to secure high levels of co-operation from retailers of its products. In this way it enhances its value. Nippon Lever scrutinized every aspect of its value chain. It questioned each assumption no matter how fundamental it appeared. In this way it has achieved major successes in its market sector.

Value chain efforts are not synonymous with total harmony of view between suppliers and receivers, Levi Strauss had difficulty in getting its retailers to adopt its financial and inventory control systems and found that flexibility was essential: in some cases its policies were adopted by its distributors and in others Levi Strauss was persuaded to adapt its ways to the Japanese mode. Rolly Doll was thoroughly

interconnected at all levels of its business value system whether they were suppliers of ingredients for its cookie dough, furniture, or travel for its tours to Amish country (see Box 5.10).

Table 6.3 Companies Assessed for value chain effort

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd.	x		
Eastman Kodak (Japan) Ltd.	x		
Gillette (Japan) Inc.	x		
ICI Japan Limited	x		
Johnson & Johnson Japan	x		
Kohler Japan K.K.			x
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.		x	
McDonald's Co. (Japan), Ltd.	x		
Nestle/Friskies K.K.	x		
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd.		x	
Revlon		x	
Rolly Doll Inc.	x		
Smith Kline Beecham		x	
United Airlines	x		

As an example of the Medium category Heinz/Ore-Ida (Box 5.7) offered a largely American product line. It exhibited a strong US bias toward US business approaches. Its efforts to deliver value were limited to leveraging its existing US products in this foreign market and exploiting its US marketing expertise. Yet some of its initiatives were successful, in particular its attempts at recruitment (poaching from competitors) resulted in minimizing of training costs and an extension of its

trade influence (Box 5.8). Its resistance to supermarket discounting practices was accepted by the trade with the result that its retail selling price (RSP) was maximized. Revlon was also assessed in the Medium category. This evaluation was influenced by its lack of commitment to a positioning strategy. Revlon was undecided whether to leverage its foreignness or adapt its approach to become more Japanese; as a result it was to some extent finding itself "stuck in the middle" (Porter, 1979). It is not possible to deliver the best value if it has not been determined what value constitutes.

Kohler was assessed in the low category and as such it deviated from the overall pattern. Its experience was that it was finding it difficult to nest in the Japanese marketing system and as a result was unable to develop the added value that stems from management of the value chain. It did not integrate its standards. Its installation requirements were alien to Japanese plumbers. It demonstrated little feel for the Japanese way of doing business. Its product was American and its corporate management resisted adaptation to Japanese market demands.

6.3.3. COMPETITIVE ADVANTAGE IS SUSTAINED ONLY THROUGH RELENTLESS IMPROVEMENTS

There are few genuine competitive advantages that cannot be quickly emulated by competition. Lower order advantages such as basic factor costs, company procedures, proprietary technology, product designs are easily replicated. More durable are such higher order advantages as brand image and the differentiation that they can bring with consumer choice; in the Japanese context executives observed that this characteristic was especially true. Japanese companies learn and react very quickly indeed. Those foreign companies in the sample that were succeeding were doing so by continuously searching for new ways to do things and for new things to do. Often they met resistance from corporate headquarters in their quest. The attitude that if it was good enough for their home markets then it should be good

enough for Japan was pervasive, although progressive change was occurring by market learning and the reverse education of headquarters people.

Table 6.4 Companies Assessed for relentless improvements

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd	x		
Eastman Kodak (Japan) Ltd	x		
Gillette (Japan) Inc.	x		
ICI Japan Limited	x		
Johnson & Johnson Japan	x		
Kohler Japan K.K.			x
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.		x	
McDonald's Co. (Japan), Ltd.		x	
Nestle/Friskies K.K.		x	
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd		x	
Revlon		x	
Rolly Doll Inc.	x		
Smith Kline Beecham		x	
United Airlines.	x		

Table 6.4 shows that most companies were gauged as showing the highest concern for relentless improvement. Those that were not tended to demonstrate a Medium level of dedication. It is worth repeating that these assessments can only be impressionistic and in making any assessment care has to be taken to discriminate between the efforts (self reported) that were being made by foreign management in the Japanese market and their reported perceptions of headquarters response. Moreover, headquarters responses might have differed had they been accessed.

Of those noted above as having a Medium level of dedication to this issue, Amway, for example, was constantly recruiting new distributors and streamlining its distribution channel. Bristol Myers was ever examining the way that it conducted its business and the management of that business within the context of its JVs. Coca Cola was constantly monitoring opportunities and ever receptive to suggestions and reports from its bottlers. RJR, was aware of the need to improve overall performance but was also acutely aware of the uphill struggle to persuade its colleagues in its US manufacturing plants of the necessity to upgrade quality. The same was true for Nestle Friskies.

A lesser degree of concern was noted concerning Revlon, SKB and even less with Kohler. Kohler by its own admission was unable to offer an adequate after sales service. Whereas, before it started trading in a foreign market, a Japanese operation would typically set up its service operation. And, in this foreign market (Japan) Kohler is competing against Toto — the largest company of its kind in the world — a company that dominates its home market with a 60% share.

6.3.4. SUSTAINING ADVANTAGE DEMANDS THAT ITS SOURCES BE UPGRADED

Competitive advantage can grow out of any activity in the value chain of the enterprise (Porter, 1990). As was mentioned in 6.3.3, lower order advantages such as basic factor costs, company procedures, proprietary technology, product designs are easily replicated. Higher order advantages such as brand image are more durable. More durable competitive advantages usually depend on possessing advanced human resources as well as internal technical abilities. Differentiation strategies based on high product quality with advanced features and high service followed by a continuous stream of product innovations are likely to be more successful than cost based strategies. To sustain advantage companies are advised to upgrade their advantages as quickly as is feasible (Porter, 1990).

**Table 6.5 Companies Assessed for
upgrading sources of competitive advantage**

	High	Medium	Low
Amway		x	
Avon Products Co. Ltd.		x	
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd	x		
Eastman Kodak (Japan) Ltd	x		
Gillette (Japan) Inc.		x	
ICI Japan Limited	x		
Johnson & Johnson Japan		x	
Kohler Japan K.K.			x
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.		x	
McDonald's Co. (Japan), Ltd.		x	
Nestle/Friskies K.K.	x		
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd		x	
Revlon		x	
Rolly Doll Inc.	x		
Smith Kline Beecham		x	
United Airlines.		x	

An example of a company in the High category is Bristol Myers. To upgrade its advantages it has continued to invest to strengthen its position — often at the urging of its JV partner Lion. Yet on its own initiative it is pressuring to instate an independent R&D facility in the Japanese market. This is seen to be necessary because almost every product has to be reformulated to meet Japanese standards. For example, BM is not permitted to use the same dyes as it does in the US. Semi permanent dyes for hair colouring products are not permitted. Virtually any new product introduced from the US has to be reformulated. Although some products

were "grand fathered" in, that is to say that when the Japanese established new standards they took cognizance of products already on the market and accepted certain dyes. In that way they are "grand fathered" into the regulations. Very little in the way of new products developed in the US today would be permitted.

I can't think of anything that does not have to be reformulated.

*Tom Thomson -- President Consumer Products Group Japan and
Korea
Bristol-Myers Squibb Company*

There can be nothing fixed about these classifications. For example Procter and Gamble was categorized as Medium in this regard because of its history of "dumping" US originated product into the market with the result of gifting the diaper opportunity to Kao and Unicharm. However, it subsequently learned from its failings and no doubt would behave differently given a second run at the market. Revlon is graded as Medium largely because on its own admission it failed to move quickly enough to obtain and create sufficient numbers of foreign products to meet the demand from Japanese department stores.

Shiseido and Kanebo have lost a significant share of the department store primarily because the stores want foreign brands in their cosmetic departments. Foreign brands now probably represent 60% of the market. We didn't do it well enough.

*Paul Hughes, President
Revlon*

As with any market, companies were limited by the availability of higher order resources. For example, the Japanese market is the largest single market for external sanitary protection. Yet J&J (graded Medium), despite being the world leader in the external sanitary protection business has no position in Japan

Our failure to crack the sanitary protection market here is largely a result of not having tried, rather than not having had the right products. We always felt that there were other opportunities to be pursued more profitably than that. It's always been a frustration to us that this is the largest unit market in the world.

Kneale Ashwell

Chairman — Johnson & Johnson Japan Inc.

It is worth repeating that the companies in the sample were in the main successful. Hence it is not surprising that they almost all warranted a High or Medium rating. The exception was Kohler. However it would be unfair to suggest that everything was wrong about that company. It was going through an investment stage having changed its marketing approach which had hitherto been by way of sole distributors in Japan. This previous arrangement had achieved small volume with commensurably small profits. Since setting up its own affiliate, its sales had increased little, its costs had increased dramatically and the company had become extremely unprofitable. Yet it was attempting to grapple with the "step function" (Lipsey, 1963) and should be given recognition for doing so. Having made that point the company was not bullish about its advantages nor did it have any major initiatives in play to upgrade any it may have had.

Kohler must decide which opportunities it is going for and determine where those opportunities lie and how it can minimize the hurdles in its way and that's really the phase it is at now. What do we have to offer this market if anything. How should we go about promoting and selling it. We should have done this earlier.

Whatever criteria you are using to describe success, Kohler wouldn't get into many of them. Not even into an awareness measure. In certain segments it would but they would be architects and designers for example. At the consumer level zero.

Kenneth G. Boston, President

Kohler Japan K.K.

6.3.5. SUSTAINING ADVANTAGE ULTIMATELY REQUIRES A GLOBAL APPROACH TO STRATEGY

An enterprise cannot sustain competitive advantage in international competition in the long run without exploiting and extending its home-base advantages with a global approach to strategy. A global approach augments home based advantages and helps counter home-base disadvantages (Porter, 1990). Advantages drawn from a global network add to home-based advantages and make them more endurable. Scale advantages from distributing globally may allow a higher rate of R & D and/or international brand development.

Table 6.6 Companies Assessed for adopting a global approach to strategy

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.		x	
Coca Cola (Japan) Co. Ltd	x		
Eastman Kodak (Japan) Ltd	x		
Gillette (Japan) Inc.	x		
ICI Japan Limited		x	
Johnson & Johnson Japan		x	
Kohler Japan K.K.	x		
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.		x	
McDonald's Co. (Japan), Ltd.		x	
Nestle/Friskies K.K.	x		
Nippon Lever K.K.		x	
Philip Morris K.K.		x	
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd		x	
Revlon	x		
Rolly Doll Inc.		x	
Smith Kline Beecham	x		
United Airlines.	x		

While it may be true that the adoption of a global approach to strategy may confer advantages that may be translated into other markets, this process is often unidirectional and it does not follow that what has been learned in a global context would confer advantage in every market. This is very true in the Japanese context. According to the reports from foreign business people in Japan, the Japanese market is one in which it often appears more possible to acquire exportable learning than to import lessons learned elsewhere. While some of the above companies have been allocated to the high category, it does not necessarily represent a positive evaluation, as mentioned at the beginning of this chapter.

Although Amway and Avon have benefited by adopting a global approach to their strategies, it has been Kohler's (graded High) undoing. Bristol Myers has made its strategy more bespoke to Japan and has also achieved a high degree of success. However the result of funding of R&D from its global presence has ensured that many of its brands exist.

No attempt will be made to interpret degrees of success since few companies have started equally and the competitive situations that they met in their respective arenas differ. Procter and Gamble (graded High) has suffered because of its attempts to adopt a global approach whereas its key competitor Unilever (graded Medium) was more inclined to design approaches for the Japanese market. Rolly Doll Inc. was graded Medium and was hugely successful in Japan. Its attempts to become more global were largely embryonic and linked to initiatives by the Seibu department store to develop stores outwith Japan. An essential ingredient of achievement appears to be "glocalization" (Peak, 1991), whereby international conglomerates are able to take advantage of local expertise and apply their imported expertise accordingly. These issues of globalization versus adaptation are dealt with in greater detail later in this chapter in the context of the Quelch and Hoff (1986) framework.

6.3.6. SELL TO MOST SOPHISTICATED AND DEMANDING BUYERS AND CHANNELS

Knowledgeable and demanding consumers will stimulate speedy improvement from suppliers because they set standards for the enterprise to reach. The ability to satisfy such groups of consumers avails the enterprise of the ability to choose which standards of product to offer in other markets (Porter, 1990). To that extent all the sampled companies were selling to what are arguably the most sophisticated buyers in the world — the Japanese consumer. In so doing they were learning lessons that could potentially aid their parent organizations in a world wide context.

When I first came here, Japanese looked on imported goods as being of higher quality than Japanese products. They were therefore more critical than they were perhaps towards their own domestically produced product. But in the twenty odd years that have elapsed in the meantime it's interesting to see that the situation has been reversed. The Japanese expect a higher level of quality from their own products.

Kneale Ashwell

Chairman — Johnson & Johnson Japan Inc.

Most of the sampled companies cited instances of learning, viz.: Procter and Gamble received a severe lesson in the necessity of offering only superior quality, Bristol Myers discerned that success could be reaped from US originated products provided that proprietary brand positionings could be established, Coca Cola learned that it was necessary to develop unique product concepts. Levi Strauss learned that it was essential to fine tune its styling. Nippon Lever discovered it was necessary to establish mastery of the value chain, especially downstream marketing activities. The same was true of Nestle. In its pet foods' business it deduced that that its "flexible formulation" method of production could not be applied readily to product that it shipped to Japan (Box 5.11). Batches of product had to be re-graded and carefully selected to minimize appearance variation. McDonald's determined that it

was wise to listen to the Japanese consumer, as a result it introduced new products and adjusted its world-wide menus as a result of this input.

Table 6.7 Companies citing learning by selling to most sophisticated buyers

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd.	x		
Eastman Kodak (Japan) Ltd.	x		
Gillette (Japan) Inc.	x		
ICI Japan Limited	x		
Johnson & Johnson Japan	x		
Kohler Japan K.K.		x	
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.			x
McDonald's Co. (Japan), Ltd.	x		
Nestle/Friskies K.K.	x		
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd.	x		
Revlon	x		
Rolly Doll Inc.	x		
Smith Kline Beecham	x		
United Airlines.	x		

There were examples of wider organizational learning from participation in the Japanese market. Kohler, for example, (graded Medium) was exporting the impetus to fuse electronics with its traditional plumbing products.

At one time we had significant product advantage — about 10 years ago — but it has been eroded rapidly. And in some areas we are at a distinct disadvantage. Many Japanese companies have introduced electronics into plumbing products. To such an extent they are almost unrecognizable to an American audience. Americans [Kohler's US management] understand this and they are trying to catch up.

*Kenneth G. Boston, President
Kohler Japan K.K.*

Heinz Ore-Ida, graded Low, appeared to learn little that was of value to its parent that was of use elsewhere. Although it did acquire a rich store of information about what could and could not be achieved in the Japanese market. This statement is in no way intended to denigrate that company. Its management questioned many of the fundamentals and conventional wisdom about doing business in Japan and successfully secured change in its distribution arrangements and marketing practices at retail level.

6.3.7. ESTABLISH NORMS OF EXCEEDING THE TOUGHEST PRODUCT STANDARDS

Tough regulatory standards are not a hindrance but an opportunity to upgrade products and processes. Older models can be sold elsewhere (Porter, 1990). In Japan the standards expected by the consumer and set by competitors are of the highest standard; in the interviews, executives generally showed a high degree of recognition of the importance of this issue

Table 6.8 Companies meeting toughest standards

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd.	x		
Eastman Kodak (Japan) Ltd.	x		
Gillette (Japan) Inc.	x		
ICI Japan Limited	x		
Johnson & Johnson Japan	x		
Kohler Japan K.K.	x		
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.	x		
McDonald's Co. (Japan), Ltd.	x		
Nestle/Friskies K.K.	x		
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd.	x		
Revlon	x		
Rolly Doll Inc.	x		
Smith Kline Beecham	x		
United Airlines.	x		

Mention has been made of Bristol Myers' attempts to grapple with the differences in Japanese standards — both with consumer quality expectations and regulatory constraints. Coca Cola operates in an arena that saw 1600 new soft drink products launched during 1990. It carefully selects from this array and focuses its resources on those that best match market standards of taste, packaging style and distribution.

Most of the products that J&J sells, with the exception of Cotton Buds and Reach Toothbrush are licensed by the Ministry of Welfare under Pharmaceutical Affairs, so it has to have a product license just as it would for a pharmaceutical product. J&J has learned to gear up its standards to meet both regulatory and

consumer requirements — both of which are high.

Nestle/Friskies adapted its quality standards but struggled to win co-operation from its Australian sourcing company. RJR cited how consumers would complain about minor defects such as misalignment of the seams on the cellophane outer packaging on cigarette cartons. ICI worked very closely with its customers in a parallel development mode to determine what they wanted and simultaneously develop it. Avon Products stressed the importance of Japanese influence on its packaging standards and was beginning to share these ideas among its other markets.

6.3.8. TREAT EMPLOYEES AS PERMANENT

When employees are treated as permanent, pressures are created that work to upgrade and sustain competitive advantage. New employees are added with care and continuous efforts are made to improve productivity to support competitive advantage (Porter, 1990).

Most of the companies recognized the issue of staff recruitment and retention as crucial to the development of their positions in the Japanese marketplace.

**Table 6.9 Companies citing concern for
staff recruitment and retention**

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd.	x		
Eastman Kodak (Japan) Ltd.	x		
Gillette (Japan) Inc.	x		
ICI Japan Limited	x		
Johnson & Johnson Japan	x		
Kohler Japan K.K.	x		
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.	x		
McDonald's Co. (Japan), Ltd.	x		
Nestle/Friskies K.K.	x		
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd.	x		
Revlon	x		
Rolly Doll Inc.	x		
Smith Kline Beecham	x		
United Airlines.	x		

Few of these companies espoused the goal of lifetime employment although none adopted a hire and fire mentality. Kohler, the company that received more low ratings than any other was particularly aware of the difficulties involved in staff recruitment and retention. Kohler was pleasantly surprised at the people it was able to attract.

They come out of curiosity initially; they see the showroom which looks attractive. It's interesting to work for a foreign company, possible foreign travel, etc. That's what has caused them to look further.

You don't have to have too many disadvantages these days to find that you don't get any one at all; if you're too far from the station, if the neighborhood is too industrial then females will not come. The assembly of all the factors is becoming more intense. More pressure is put on rates, etc.

*Kenneth G. Boston, President
Kohler Japan K.K.*

According to interviewees, Japanese companies are building expensive condominiums plus resorts in several areas to attract and retain staff. So for a company that is entering the Japanese market it will never be able to attract the elite from the best universities.

You'll have to settle for second raters except maybe a first rater who has somehow fallen off the track or is eccentric.

Kenneth G. Boston, President, Kohler Japan K.K.

6.3.9. ESTABLISH OUTSTANDING COMPETITORS AS MOTIVATORS

Those competitors that most closely match the competitive advantages of an enterprise or have exceeded them become the relevant standards of comparison (Porter, 1990). As was shown in Chapter 4 Japanese competitors are among the most formidable in the world. Time after time executives mentioned that learning to compete prepares them to compete well anywhere else. Of the companies rated High, Procter and Gamble recognized the salutary lesson it received from Kao and Unicharm. Nippon Lever expressed the highest respect for Kao and other Japanese

competitors. Bristol Myers had the highest praise for the quality standards of its competitors and attempted to emulate them. Eastman Kodak's thrust into the Japanese market was predicated on tracking and wrong footing its primary competitor Fuji and gaining insight into the thinking of the Japanese technological community (Box 5.4).

Table 6.10 Companies citing benefits of facing Japanese competitors

	High	Medium	Low
Amway	x		
Avon Products Co. Ltd.	x		
Bristol-Myers K.K.	x		
Coca Cola (Japan) Co. Ltd.	x		
Eastman Kodak (Japan) Ltd.	x		
Gillette (Japan) Inc.		x	
ICI Japan Limited	x		
Johnson & Johnson Japan	x		
Kohler Japan K.K.	x		
Levi Strauss Japan K.K.	x		
Heinz/Ore-Ida.		x	
McDonald's Co. (Japan), Ltd.	x		
Nestle/Friskies K.K.	x		
Nippon Lever K.K.	x		
Philip Morris K.K.	x		
Procter & Gamble FE Inc.	x		
R. J. Reynolds/M. C. Ltd.	x		
Revlon	x		
Rolly Doll Inc.	x		
Smith Kline Beecham	x		
United Airlines	x		

Of those companies awarded a Medium rating, Gillette tended to be quietly confident and tended to regard the untypically high market share of its competitor Warner Lambert as an accident of history, that company having been approached by an unknown untried distributor that subsequently was instrumental in helping

develop its business in the Japanese market. Gillette's position was untypical because its major competitor was another foreign company². Heinz Ore-Ida tended not to rate its competitors highly as they were ostensibly marketing similar products as commodities and in so doing lacked its marketing flair. With the exception of these two companies the sampled companies were inspired by the competitiveness of their Japanese counterparts.

6.4. STANDARDIZATION VERSUS ADAPTATION

As was mentioned in the introductory paragraph to this chapter, the work of Quelch and Hoff (1986) — a major work on this topic — has been drawn on to classify and appraise the companies in the sample. As was mentioned briefly in Chapter 2 they identified four dimensions of global marketing: business functions, products, and marketing mix elements. The sampled companies are classified along each of these dimensions according to the degree of standardization that is imposed or the degree to which the companies have adapted their operating standards to the Japanese context. These are depicted in Table 6.11 according to the coding listed in Table 6.1.

² Much of Gillette's lack of success was attributed to its clumsy handling of distributor relationships.

Table 6.11 — The Quelch and Hoff Framework Applied

		Adaptation		Standardization	
		Full	Partial	Partial	Full
Business Functions	Development	s	c, d, e, f, h, k, n, p	a, b, i, m, r, u	q, l, o, j, t
	Manufacturing	c	b, d, e, i, k, m, n, p, s, u	f, h, q, r, t	a, g, j, l
	Procurement	c, m, s	a, b, d, e, i, k, n, u	f, h, l, o, q, p, r, t	g
	Marketing	c, n, s	a, b, d, e, f, g, h, i, k	j, l, m, o, p, q, r, t, u	
Products	Low cultural grounding High economies or efficiencies		n, k,	a, h, g, i, p, u	
	High cultural grounding High economies or efficiencies	s	d	b, f, i, m, o, q, r, t	
	High cultural grounding Low economies or efficiencies			c	j

		Adaptation		Standardization	
		Full	Partial	Partial	Full
Marketing mix elements	Product design	s	b, d, k, m, n, p, u	a, c, e, f, h, i, r, t	g, j, l, o, q
	Brand name	s		a, b, i, k, c, d, e, f, g, h, j, l, m, n, o, p, q, t, u	r
	Product positioning	c, s	a, b, d, f, k, m, n, o, p, q, r	e, g, h, i, l, t, u	j
	Packaging	b, n, s	c, d, e, i, m, p, r, t	a, f, g, i, k, l, o, q	u
	Advertising theme	c, n, s,	a, b, d, e, f, h, i, j, k, l, m, o, p, q, r, t	g, u	
	Advertising copy	a, b, c, f, n, o, s	d, e, i, j, k, l, m, p, q, r	g, h, u	
	Pricing	b, m, n, s	a, c, d, e, f, g, h, k, o, p, q, r, t, u	j, l	
	Distribution	c, d, e, f, i, n, s	h, j, k, l, p, q, r, t	a, b, g, m, u	
	Sales promotion	c, d, e, f, k, n, s	g, h, i, j, o, p, q, t, u	a, b, l, m, t	

		Adaptation		Standardization	
		Full	Partial	Partial	Full
	Customer service	a, b, c, d, e, f, m, n, s	g, h, i, k, l, o, p, q, r, s, t, u	j	

In many cases the following comments are cross referenced to other chapters and boxes in which the context of the findings is fully represented.

6.4.1. BUSINESS FUNCTIONS

In this section the companies will be compared on the basis of research and development, manufacturing and marketing. Where pertinent, comments will be made about the companies. In some cases the classifications will be allowed to speak for themselves.

6.4.1.1. Development

In the consumer products arena most of what is called Research and Development (R&D) is primarily development work, for example Nestle concentrates its basic research in two centres in Switzerland, but product development is decentralized.

6.4.1.1.1. Adapted

Repeatedly in Table 6.11 we see evidence of Rolly Doll demonstrating a higher level of adaptation to the Japanese approach. At the outset it must be made clear that this company is atypical for reasons other than its tendency to excel in the Japanese market.¹ While its founder Joseph Dunkle is an American, his company

¹ See Box 5.10

has been absorbed by the retailing group Seibu. He reports into the Seibu main board along with other company presidents in the group. So, except that he is a non Japanese and the concept is on the surface American; the company behaves in many respects like any other Japanese company.

Of those companies portrayed as being partially adapted, Bristol Myers K.K. is striving to achieve total R&D independence from its American parent. It is making these efforts so it can maximize its flexibility in the Japanese market and respond to market requirements without interference from its corporate parent. This it perceives to be an absolute necessity for its future market development. Although in their original article (Quelch and Hoff, 1986) Coca Cola was considered to have standardized its methods much more than had Nestle, this study has revealed that Coca Cola (Japan) has made tremendous strides to ensure that it is responding to Japanese tastes, its R&D efforts had succeeded in giving Coca Cola (Japan) Company's product line a very different complexion to its American parent or any other operation in the group. Most of its revenue is being generated from canned teas and coffees. Its number one brand is not Coca Cola but Georgia Coffee in cans. These successes could be directly attributed to reading the market which, as was discussed earlier, is heavily biased toward vending machine consumption, and ensuring that the development efforts serve the opportunities that were identified².

Eastman Kodak (Japan) Ltd has established a major R&D facility³ employing 120 people, precisely to participate in the Japanese scientific and technological community. Whereas, Nestle has been in the market for around one hundred years and has become successful simply by harnessing ideas that emanate from various domains in the international corporation⁴. ICI (Japan) is another example of a foreign company that is attempting to *Japanize* itself. It has also established a

² See Chapter 5

³ See Box 5.4

⁴ See Box 5.11

major technical department with a planned establishment of 300 scientific and development staff. The company is positioning itself as an international chemical company based in Japan.

Even Levi Strauss Japan K.K. which outsiders would expect to produce a highly standard product relocated in Japan to hire Japanese designers who would be better equipped to respond to the subtleties of Japanese consumer tastes⁵. Nippon Lever has demonstrated a vivid research based understanding of the Japanese consumer, backed by a willingness to formulate all of its products to suit the requirements of the Japanese market⁶. After painstaking research, the cod formula was rejected in favour of pollack, the coating made less salty and the texture changed. The product was launched as Fish Oh! Finger, Captain Birdseye became Captain Iglo, and Fish Oh! Finger became a brand leader. On the other hand, its arch competitor Procter and Gamble was rather slow to appreciate what many of its competitors took at face value. However after much mistake making with its export to Japan of US manufactured product, it has put new vigour into its Japanese development efforts⁷. In particular it has been very aggressive in the way that it has improved its Pampers product by sequentially introducing a succession of new product versions.

Amway and Avon Products have been classified as being partially standardized. The majority of their products emanate from the United States. However in the arena of personal care products their acquired knowledge of the Japanese consumer has influenced Avon in particular to place selective emphasis on skin whitening products and other Japanese consumer led items. Many of Johnson and Johnson Japan's products also emanate from elsewhere in the group. Although in its earlier days Johnson and Johnson Japan found it was an uphill struggle to persuade its American parent to develop products in dedicated formats for the Japanese market,

⁵ See Box 5.1

⁶ See Box 5.14

⁷ See Box 5.13.

the company is now much more responsive⁸, for example Reach toothbrushes are made with a shorter handle with a hole. Also in the partially standardized classification are McDonald's, Revlon and United Airways. McDonald's and United Airways both have highly standardized products, although in each case some efforts have been made to adapt to the Japanese consumer. The Japanese opportunity evaluation was based on the recognition that the ingredients of the product were common in the Japanese diet, it was the assembly of the ingredients that differed. In fact some of McDonald's products have originated in Japan. Iced coffee for instance is included on the McDonald's repertoire in many countries and is thought by many consumers to be an American inspired item whereas it was introduced as a result of Japanese initiatives. Moreover, while the restaurant designs are influenced by the American model, the Japanese have had to work within different structural constraints in so far as few Japanese restaurants are free standing, as they are in the USA, and have to be incorporated into major property developments. Similarly United Airways attempts to adapt its product and service by fine tuning of menus based on in flight consumer research and a knowledge of where consumers are travelling to and from.

6.4.1.1.2. Standardized

Gillette, Heinz, Kohler, Philip Morris, RJR and Smith Kline Beecham have been classified as fully standardized in terms of Research and Development effort in that few or no concessions were made to the Japanese market. Of these the least successful was Kohler, a large American manufacturer of bathroom fittings. In this market sector the major Japanese manufacturers led by Toto, the world's largest manufacturer of such products, have successfully fused electronics with plumbing products. However, Kohler was endeavouring to drive its Japanese business from a

⁸ An error also made by P&G, see Box 5.13.

United States perspective and was finding it an uphill struggle with products that were non standard and perceived to be backward. The managing director was in the process of leaving the company and spoke of a total failure to understand the needs of the Japanese market by the American board.

Gillette was marketing its standard products with only minimal consideration having been given to the differences in Japanese facial hair growth and no plans were in evidence for a bespoke Japanese initiative. Heinz has a standard product and was operating in an export mode. It was also making no particular dedicated Japanese development initiative. Philip Morris and RJR are marketing international cigarette brands and by definition are somewhat standardized. They fit into the partial category because they are undertaking some modification to tar formulations for the Japanese market since the Japanese smokers are consciously reducing their tar intakes. Both companies have to devise ways to ensure that Japanese quality production emanates from a production system that has lower standards of tolerance than their Japanese competition; whereas, on the consumer side of the Smith Kline Beecham business is mainly marketing standard international brands such as Aquafresh and thus the R&D effort is largely standard.

6.4.1.2. Manufacturing

In this section the sample companies are classified by the degree to which their manufacturing has been adapted to the Japanese market or standardized globally.

6.4.1.2.1. Adapted

In manufacturing terms the company that had most fully adapted its manufacturing process to meet the exacting demands of Japanese consumers was Bristol Myers. The company president spoke of flawless production quality for which it had to thank its JV partner Lion. Others such as Avon, Coca Cola, Eastman Kodak and Johnson & Johnson had established its manufacturing

operations for many years and had adapted well to the Japanese environment. Levi Strauss, McDonald's, Nippon Lever, Procter & Gamble had also well established manufacturing arrangements. Rolly Doll and United were likewise well adapted. Nestle/Friskies, ICI, and Revlon were coping with the process of adaptation but only with some difficulties. They were however, successfully resolving their problems.

6.4.1.2.2. Standardized

McDonald's were partially standardized in the sense that the structure of its supply operation was influenced by the methods applied elsewhere but in Japan they were customized to that market which is not to say they were particularly *Japanized*. The distribution function is performed by a distribution company that in turn was established by its bread supplier. Manufacturers supply to the distribution company that operates separately from McDonald's, and the distribution company marks up its suppliers selling prices by 20% and supplies the restaurants.

McDonald's revenues are a straight percentage of its restaurant revenues. While there is only one distribution company, to spread supply risks it contracts out the manufacturing of its major items such as the beef patties to two manufacturers and appears to be operating successfully with this policy. Similarly, Amway confessed its adherence to its US methods: it manufactures in the US and with its position as the fastest growing (compound annual growth rate sales) foreign company between 1983-86 (Lacktorin, 1989), it is difficult to be too critical of its policies. Similarly Heinz (Box 5.7) carved out a niche by importing US product, Philip Morris has built a successful business by achieving a 60% share of the imported cigarette sector, RJR is building its business around volume but struggling to ensure its foreign production meets Japanese quality expectations. Smith Kline Beecham is developing its position albeit with standardized manufacturing policies.

6.4.1.3. Marketing

The marketing approaches of the sampled companies are classified according to the degree of adaptation or standardization.

6.4.1.3.1. Adapted

Bristol Myers was fully adapted with its marketing efforts. During its involvement in the Japanese market with its JV partner it had learned to adapt to the Japanese way and had coped with the constraints of working with a JV partner. Despite the often differing aims of the partners the marketing of this company was set secure. Similarly Nippon Lever had succeeded in melding its expertise with its understanding of the Japanese consumer and was able to adapt its international product concepts to fit the Japanese marketing opportunities with uncanny skills; as mentioned earlier Rolly Doll was perhaps the most adapted of all companies.

Amway and Avon had both adapted their traditional geographical franchise systems and were harnessing network marketing. In this way several different agents or distributors could have been operating in the same territory but serving different social groups or networks. Other than that, however, their concepts were not broadly modified. What was altered was a recognition in both cases of the rich opportunities that were presented by understanding the Japanese consumer well and supplying the products she requires. Moreover, Coca Cola has a high profile marketing and product planning group dedicated to identifying market trends as well as gaining an appreciation of which concepts are worth investing in heavily. Coca Cola (Japan) is sufficiently powerful that it has successfully applied a market follower strategy and has been prepared to invest disproportionately to offset the effect of its late entry into key new product categories (see Chapter 2). In other words it has successfully picked up on trends that were in evidence in the market and then refined and developed its own versions which it then supported with massive advertising investment coupled with its distribution leverage.

Eastman Kodak recognized the extent of the Japanese market opportunity and has been prepared to invest heavily around the key arenas in which it foresees its future⁹. Johnson and Johnson like many of the others has had a presence in the market for 30 years and as a consequence has learned its lessons well. It has brought its foreign based methods and carefully trained its Japanese staff to cherry pick the best among Japanese and Western business systems. However its consumer business really does not have the critical mass to compete on level terms with the consumer giants such as Kao, Lion and Shiseido. In the consumer business there are no patented processes or technological leads that are meaningful so Johnson and Johnson concentrates its major marketing energies on the professional health care arena. Hitherto, Levi Strauss attempted to operate from Hong Kong and export to Japan by designing for the collective Asian consumer. This strategy was shown to be too unfocused for the sophisticated Japanese market so it moved manufacturing and marketing to Japan which provided the quality it required and a faster turn around time from the product design stage to manufacturing and shipment into retailing outlets.

Kohler, Heinz, McDonald's, Philip Morris K.K., Procter and Gamble Far East Inc., RJR, Revlon, SKB and United Airlines were all partially standardized in their marketing approaches. Kohler was operating at a low level of market achievement as mentioned above. Heinz's systems and policies were based on US career considerations. Its executives were "posted" to Japan for relatively short periods of three years and were effective to some degree in introducing American approaches in the market, but not without meeting some cultural obstacles en route¹⁰. In Heinz's case it had productively introduced some US marketing orientation into what was apparently a sleepy sector — frozen foods. It introduced branding into an arena where commodity products prevailed (Box 5.7). Also, it identified its

⁹ See Box 5.4

¹⁰ See Boxes 5.7 and 5.8

position as a premium priced outsider and communicated that position to the trade. In so doing it avoided price wars, when the trade reduced prices it maintained its differential and when prices increased the same was true. In other circumstances such as recruitment it chose to ignore the need for trade consensus and adopted more aggressive tactics¹¹.

McDonald's is using similar marketing approaches in Japan as it is elsewhere. Philip Morris K.K. and R.J.R. have also been classified as partially standardized. They are marketing imported products in the main and have successfully applied their standard style of thinking to the cigarette sector. However they have had to adapt to many of the Japanese business mores. Recognition of the importance of the trade in their sector is crucial as is the role of distribution per se, in particular that of vending machines which tend to dominate the cigarette business. Procter and Gamble also fit into this category of partial standardization. They have been reluctant to move toward the Japanese way of doing things, mainly with negative results. However it has latterly shown some signs of adaptation. Specific instances will be cited below. Revlon, SKB, and United were operating their marketing operations with little concession to their Japanese location and were succeeding relatively well. Nevertheless Revlon was harnessing the property of being foreign to its advantage.

6.4.1.4. Products

In this section the companies are rated corresponding to whether they were dealing with products that had high or low cultural grounding. According to Quelch and Hoff (1986), products with high cultural grounding require more precise tailoring to the specific mores of individual markets and thus afford smaller production runs and/or a reduction in the transfer of relevant skills and technologies

¹¹ See Chapter 5 and in particular Box 5.8

between those markets. Low culturally grounded products thus enable higher efficiencies to be realized, the converse being true for high culturally grounded products. All such judgements must of course be relative, there being no immutable laws. Variation exists even within product categories. For example, in the food sector, a category that is usually regarded as highly culture bound, haggis may be culturally grounded to Scotland but hamburgers not so, which as a result of the efforts to market them, are an international product. The same is true for *sushi* and *sashimi* which at one time may have been culturally rooted to Japan but because of a growing international exposure of these food products they are more widely acceptable. Given time and effort a culture-bound food product such as *suba* noodles may achieve international acceptability; similarly in the clothing sector kimonos may be rooted in Japanese culture but men's shirts not so.

The use of the term "culture-bound" implies there is inertial resistance to change because the beliefs and associations that prevail are highly central (Rokeach, 1968). However such mores should be seen not as immutable obstacles but as fences, which with effort can be cleared, as they have by many of these companies. In the classifications that follow, a broad classification of the sample companies' products has been attempted. It is admittedly impressionistic. Most of these companies have many products, some of which are likely to be more culturally grounded than others; so to forcibly highlight any differences the assessment has been restricted to their most prominent lines.

6.4.1.4.1. LOW CULTURAL GROUNDING — HIGH ECONOMIES OR EFFICIENCIES

Following the precepts of Quelch and Hoff (1986), it can be seen from Table 6.11 that several companies: Amway, Gillette, ICI, Johnson and Johnson, Levi Strauss, Nippon Lever, Procter and Gamble and United Airlines were operating in low culturally grounded sectors. It is worth repeating that this is a relative

statement. For example Amway is engaged with home care, houseware, nutritional products, gifts and personal care items. Most of these are American derived concepts and have been shown by the success of this company to be capable of marketing internationally without significant cultural obstacles. However, personal care products may be more culturally grounded.

Eastman Kodak (Japan) Ltd, the major world-wide photographic company has a presence in a number of arenas including pharmaceuticals. Its main photographic business involves products that are not culturally grounded but that is not to say that the Japanese market does not manifest distinctive preferences. It demands more vivid colours than its traditional markets.

Gillette (Japan) Inc. is a dominant player in the shaving and personal care business. Its brands are international and consumption is relatively unencumbered by cultural sensitivities. ICI Japan Limited is owned by the major British chemicals' company, but positions itself as an international chemicals' company operating in Japan. Its products are designed to meet technical and functional specifications and have low levels of cultural grounding. Johnson & Johnson Japan is a health care and consumer products company. It has 33% of the baby toiletries' market, 10% of the adult lotion market, 32% of the adhesive bandage market, 10% of the toothbrush market, and over 30% of the cotton buds' market. J&J like Levi Strauss Japan K.K. the internationally famous manufacturer of denim jeans and other fashion wear has had to overcome difficulties in the interpretation of its concepts but neither have been daunted by problems of cultural grounding.

Nippon Lever K.K. an Anglo-Dutch owned MNC, is one of the world's largest manufacturing concerns. Highly diversified, its business spans six primary product groups — detergents (22% total sales), edible fats (20%), food and drinks (18%), frozen foods (12%), speciality chemicals (8%), others (10%). It has more than 500 operating companies in 75 countries. Its strategy is to establish high value adding operations inside local markets and maximize responsiveness to the markets it

serves. Its arch rival Procter and Gamble Far East Inc. manufactures and markets a wide range of laundry and cleaning products, disposable paper products including diapers, personal care products including pharmaceuticals. In Japan P & G currently manufactures and markets a wide range of packaged consumer goods including laundry and cleaning products, disposable paper products, personal care and OTC items. It has 11% of the Japanese dish soap market and has regained a leadership position in the diaper business. While it has incurred cultural problems, its mainstream products have found acceptance with Japanese consumers.

6.5.4.1.1. Adapted

Nippon Lever was making a great success out of translating and tailoring its international product concepts into the Japanese setting¹². Above all it is the care it takes in interpreting the consumers' motives and translating its strengths into the Japanese context which confers advantage. Levi Strauss, was taking great trouble to adapt its product with fine points of design. In this way it was attempting to fulfil the expectations of the Japanese consumer¹³.

6.5.4.1.2. Standardized

The majority of companies in the sample were in the category of partial standardization. Amway was successfully marketing a product line that was partially common across many of its markets, although it was sensitive to the need to respond to particular Japanese opportunities and was introducing a range of nutritional supplements, a growth area in Japan. In many instances it is true that Johnson and Johnson are operating in some low culturally grounded areas, but it is also true that it shares some common ground with Bristol Myers. Therefore those

¹² See Box 5.14.

¹³ See Box 5.1.

comments made below about Bristol Myers apply in part to Johnson and Johnson Japan. However many consumer products are standardized for good reason. For example a decision which J&J considered making that involved adapting its Band Aid product to make it smaller for the Japanese market would have involved many hidden additional costs as J&J's machines were set up for high speed mass production to meet fixed sizes that applied to most markets. That process is inflexible would have required non standard machines with additional separate sets of spares to be created and held, all adding to the cost of its Japanese operation.

That the McDonald's concept is so international is testimony to Quelch and Hoff's (1986) low cultural grounding thesis. In this regard the company is highly successful in marketing its product globally. In the Japanese setting the company was doing so with only minor modifications to its standard product and those were seen as adaptations of the international product rather than an attempt to *Japanize*. Previous comments made concerning Philip Morris and RJR are equally applicable to this heading.

It was precisely for reasons of inept standardization that Procter & Gamble allegedly wrote off \$300 million in its attempts to develop its market position in Japan (Huddleston, 1991). It mistakenly attempted to foist US quality product on the Japanese consumer, only to cede its position as the market leader to Kao and Unicharm as the Japanese consumer retreated from the Pampers product in droves¹⁴. Much more investment and development time were required to regain its position as market leader. However Procter and Gamble Inc. is beginning to benefit from its Japanese operations. By witnessing, at first hand, the launch of the compact detergent with one quarter the weight and package size of its predecessors that was a major success for its developer — Kao Corp. Both P&G and Nippon Lever appraised the significance of this development. As a result of identifying

¹⁴ See Box 5.13

products that were gauged as essential to success in the Japanese market, they both moved swiftly to launch super concentrated detergent products in key European and US markets.

6.4.1.4.2. HIGH CULTURAL GROUNDING — HIGH ECONOMIES OR EFFICIENCIES

Avon Products is engaged with a similar portfolio to Amway — but with a heavier concentration on cosmetics, and more recently has added nutrition and personal care products. It is famous for its direct selling approach to distribution. It too has been able to generate large sales volume without encumbrance by cultural barriers. Coca Cola (Japan) Company Limited has won over 30% of the Japanese soft drinks' business and avoided major cultural roadblocks. Besides acquiring the pet food interests of Carnation, Nestle has 70% share of the Japanese instant coffee market and 40% of the instant creaming powder market. The bulk of its mainstream products is Western concepts and their very success in Japan is testimony to Nestle's success in overcoming problems or demonstrating the irrelevance of cultural grounding (Quelch and Hoff, 1986) problems. Rolly Doll Inc. owns a chain of "Aunt Stella's" cookie stores and has extended its rustic appeal into furniture and travel.

6.4.1.4.3. Adapted

Rolly Doll was the most fully adapted with its *Japanized* American cookie concept. Coca Cola, while building on its international expertise was deriving much advantage from the application of its product planning expertise to develop and market concepts that were aimed at the Japanese consumer¹⁵.

¹⁵ See Box 5.14

6.4.1.4.4. Standardized

Avon was in a broadly similar to the situation facing Amway — even to the extent of introducing a range of nutritional supplements — although it was modifying marketing mix elements to a greater extent as will be explained below. Nestle operates in many fields in Japan and many of these are international product concepts with little cultural grounding. Much of Nestle's success has stemmed from the rapid growth of the instant coffee market, in which it was particularly well positioned to take advantage with its Nescafe brand, but the coffee market has become much more sophisticated, and that leaves Nestle with the problem of how to differentiate itself in a market where single brands do not pack such power. In some ways it appears that the coffee market in Japan has become too sophisticated for Nestle's approach. Moreover, coffee now occupies a more important position in the Japanese culture and Japanese companies such as UCC and Hario set the pace and are now becoming major exporters of coffee and related items.

6.4.1.4.5. HIGH CULTURAL GROUNDING — LOW ECONOMIES OR EFFICIENCIES

Only two of the companies were classified in this category, they were Bristol Myers and Kohler; both of which were operating standardized policies. Bristol Myers learned that the attitude toward analgesic application and usage was quite different in Japan from its home market. The Japanese are less inclined to take drugs orally and tend to favour therapeutic pads that are attached to the skin, relying on osmosis to infuse the painkiller through the skin. Body pains are dealt with by body rub lotions. This external treatment market is much larger than the oral market. Oral analgesics are considered a radical treatment by Japanese. So, in those instances when Japanese do take pharmaceuticals orally they are prepared to tolerate higher levels of pain before resorting to a treatment that, to them, is considered radical. Japanese consumers will take only the precise recommended

dosage whereas the US market is built on the consumer practice of overdosing on pills to solve the most minor of ailments. To develop the number one market position with its Bufferin brand has required a great deal of cultural sensitivity on behalf of Bristol Myers. The communications emphasis is based on safety and reassurance rather than pain killing power.

Kohler's products — bathroom and plumbing wares — are to some extent culturally bound. Japanese standards are different. Toilet seats and bowls are smaller. As was mentioned briefly above, Japanese manufacturers are harnessing electronics in their products with auto flushing electronic toilet seats and urinals. Electronic toilet seats are big business in Japan. In comparison Kohler's US product appears primitive.

6.4.2. MARKETING MIX ELEMENTS

In this section the elements of the marketing mix will be reviewed against the Quelch (1986) framework highlighted in Table 6.11.

6.4.2.1. Product Design

Companies are now classified according to the degree which their product designs are adapted to the Japanese context or standardized.

6.4.2.1.1. Adapted

Although the product concept — Aunt Stella's Cookies — is seemingly American, it was designed for the Japanese market. Original recipes were adapted to suit Japanese tastes and others invented. The business is a triumph of Japanese packaging technology¹⁶. In certain aspects of product portfolio construction Amway is standardized and Avon has moved in an identical direction to Amway.

¹⁶ See Box 5.10

Avon claim that Amway followed it into the nutritional supplements' business. Moreover, Avon has several dedicated Japanese products, including the Cleawhite skin whitening products referred to above. Coca Cola (Japan) Company has adapted its product line to suit Japanese tastes and distribution opportunities. It has not modified its Cola products to suit Japanese taste preferences, nor is it believed to be encumbered by not having done so.

In response to its market audit, Ore-Ida reduced the size of its product to one third of the US standard size (in other words from 900g to 300g). All the packaging data was translated into Japanese and the product modified primarily in terms of its salt content. The Heinz approach was to highlight the superior nature of its product, emphasizing that it could be prepared in a toaster oven instead of with messy deep-fat frying; it then charged a price premium.

While the format of jeans is particular well defined, Levi Strauss have sought to refine the design of its product to match Japanese tastes, size and shape requirements.

Although McDonald's have operated to the overall standardized restaurant design format it has successfully incorporated a singularly Japanese demure ambience in many of its outlets. Nippon Lever is essentially marketing international brands but it researches the consumer mercilessly and reformulates to fit its brands into the structural constraints of Japanese living and repositions according to consumer demands. As was mentioned by the Chairman of Nippon Lever, the consumer frequently sleeps within smelling distance of her kitchen surfaces and prefers tangy citrus fragrances. Such research based findings are leveraged to the hilt in Nippon Lever's product formulations. As a result of difficulties it met, Procter and Gamble have also accepted the precondition that products must be formulated for Japan. Its diaper product has been forced through several phases of development. Similarly, to fine tune its service, United Airlines attempts to research its flying customers to assess reaction to "in flight" menu items

and magazines it offers.

6.4.2.1.2. Standardized

Avon, Bristol Myers, Eastman Kodak (Japan) and Nestle were considered to be partially standardized with their product design. As mentioned above, Amway has adapted its product line to capitalize on a growing trend toward nutritional supplements. However the bulk of its product line was based on international formulations. Bristol Myers has achieved its market position not so much by changing the formulation of its products but rather by attending to quality considerations. The President of Bristol Myers K.K. commented that the Japanese Bufferin product is probably superior in quality terms to the US product *and that the US product is flawless*. Eastman Kodak (Japan) suffered because of its lack of sensitivity to the Japanese market. It is relatively recently that Japanese packaging was introduced, however it has made great strides recently¹⁷. The Kodacolor Gold product was formulated to meet Japanese tastes before being marketed in the rest of the world. Apparently the Japanese prefer more gaudy colorations to consumers in the US and Europe. This was one instance of where Japanese market considerations represented the tail that wagged the dog that was the rest of the world.

Nestle have made few concessions with product formulations in many product areas but some in others. Its primary skills are in positioning and promotion. Where it has found it necessary to compromise is with product quality. This is an especially acute problem in the pet food business because they traditionally work on flexible formulations which means they modify the ingredients that go into the product according to a set of pre-defined formulations, depending upon what offal is available on a given day. However, the Japanese pet owner expects a pet food product to look the same and smell the same irrespective of commodity market

¹⁷ See Box 5.4

prices. Revlon is in a somewhat different situation. Its evaluation is that foreign is a positive factor. Its president talked of conflict between himself wanting to *Japanize* its products while his Japanese staff insisted that foreignness had more cachet.

Smith Kline Beecham was making its way by making only minor concessions toward adaptation; it was not giving much dedicated focus to the Japanese market at all. Japan is classified as part of "Rest of the World" in terms of its operating businesses. In its 1989 accounts Japan warrants a short entry: "Consumer Brands starts with a sound base in Japan, especially in OTC medicines with Contac and oral health care Aquafresh."

Gillette, Kohler, Heinz, Philip Morris and RJR are classified as fully standardized. Its products and brands are designed elsewhere to meet a myriad of market situations and thus they tend to suffer from a lack of focus. In Japan, Gillette, for example, is a minor player to Warner Lambert's Schick brand, a situation that is reversed in almost every other world market. Kohler's situation was discussed in the previous section. Heinz unashamedly markets standardized brands in Japan with a degree of success. However, Philip Morris requires a special mention here. It does not market its major brand Marlborough in Japan. This was licensed to JT many years ago when the market was closed to imported products. Although, some years back Philip Morris bought the Lark brand from Liggett, and, that brand had been nursed and developed with the Japanese market in mind. Today Lark is a major force in the imported sector.

6.4.2.2. Brand Name

It is necessary to preface this section with a few comments on branding in Asia. It is common for international brands to be given "local" names that are sometimes merely transliterations of the international brand name sound, and on other occasions new names are constructed that optimize the similarity of sound yet

embody favourable meanings and connotations. What is at issue here is not that process but whether branding decisions are taken in the market and to what degree standardization applies.

The Rolly Doll brand name Aunt Stella was determined with the Japanese market opportunity in mind. The remainder are merely standardized brand names offering in parallel, in a number of cases, a transliterated version of the standardized brand. These transliterations would commonly be used on the Japanese packaging format and in the advertising. However this is not universally so, especially in those instances of where foreignness is held to be positive, e.g., Revlon.

6.4.2.3. Product Positioning

The approaches that the sampled companies adopted toward product positioning are classified according to the degree that they are standardized or adapted.

6.4.2.3.1. Adapted

Bristol Myers K.K. and Rolly Doll stand out as those companies that have adapted their positionings to suit the Japanese market context. Bristol Myers K.K. for instance has read the way that consumers perceive the use of analgesics and reacted carefully by maintaining a consistent positioning based on safety for its Bufferin brand. Similarly with its Sea Breeze product — an alcohol rub with no proprietary properties — it has entrenched its association with sun bathing and water sports. The product is used mainly by males to splash on for its cooling effect after being in the sun. Competitors have copied the product but Bristol's position appears unassailable. Yet again, the Rolly Doll positioning was developed for the Japanese market.

Amway, Avon, Coca Cola (Japan) and Nestle have demonstrated their abilities to reposition their brands in accord with opportunities presented by the market.

Similarly, Levi Strauss, McDonald's, Nippon Lever, and Philip Morris have demonstrated a comparable level of prowess in this regard. Levi Strauss state that Levi's jeans are about American heritage and by stating that it is the inventor of the jeans, it makes a proprietary statement. McDonald's stresses quality, service, friendliness, low cost nutrition and value and Nippon Lever adjusts all of its positionings to suit precisely defined target consumer segments. Philip Morris has consistently established a clear positioning for its Lark brand, having successfully steered its transition from full flavoured to one based on mildness. Lark is now the major imported brand.

P&G may have been the first company to market disposable diapers, very quickly dominating what was a small market, its vision however, was limited. Originally, the company viewed the product for usage on special occasions and distress situations only. Competitors such as Kao and Unicharm quickly analyzed the product and found that it did not perform well in two important situations — during outings and overnight. These competitors then introduced better fitting, more compact, super absorbent polymers designed for the Japanese baby; and positioned them accordingly. Mothers responded positively to the new products, because they were tailored to the Japanese setting. The net result was virtually 100 per cent penetration of the diaper market by disposables. Procter and Gamble was slow to respond but eventually adapted its positioning. Revlon is pursuing its foreign positioning with success. Foreign cosmetics' brands are eagerly sought after by Japanese *depato* cosmetic buyers.

6.4.2.3.2. Standardized

Eastman Kodak (Japan), Gillette, Johnson & Johnson Japan, Heinz and United Airlines are operating with various degrees of success with partially standardized positionings. It is dangerous to over generalize since these companies have wide product portfolios; however some examples can be offered. Eastman Kodak has a

very wide product portfolio (see Appendix) but is offering standard photographic benefits to Japanese consumers. Gillette has been much less successful than its junior rival Schick which holds most of the Japanese wet shaving market. Heinz has successfully standardized its quality positioning in the frozen foods' arena (Box 5.7), and United Airlines talks about routes, networks hubs and gateways as it does elsewhere. Kohler showed the highest degree of standardization but was struggling in the marketplace.

6.4.2.4. Packaging

Japanese packaging has had a long and prestigious history. The department store wrapping often means more than the gift that is inside. In this regard the packaging of a foreign consumer product needs to undergo restructuring.

6.4.2.4.1. Adapted

Nippon Lever and Rolly Doll were the most adapted on this important criterion of packaging, but for different reasons. Nippon Lever had studied product usage and attitudes to the finest degree. Many of its soap products such as Lux find much of its purchases are made in the gifting seasons. Apparently many gifts are given and recycled, i.e., passed on as gifts to others. They are stored between gift giving seasons and thus require a much longer shelf life than in the West. Packaging has to be sealed perfectly to inhibit fragrance loss. Rolly Doll exemplifies the Japanese preoccupation with elegant packaging. Many of its product sales are linked to gift giving and are rendered in a variety of gifting forms. Avon, for example, was proud of the fact that its Japanese packaging was superior to anything anywhere else in its worldwide network.

Those considered to be partially adapted were: Bristol Myers K.K., Coca Cola (Japan), Eastman Kodak (Japan), Johnson & Johnson (Japan), McDonald's, Procter and Gamble Far East Inc., Revlon and SKB. All of these companies are

particularly attentive to detail in their Japanese packaging.

6.4.2.4.2. Standardized

Amway, Nestle, Gillette, Johnson and Johnson, Heinz, Smith Kline Beecham, and United Airlines were partially standardized. What they shared was that their standards were high and that they are up to date with the most sophisticated trends in world wide packaging technology. Kohler was the most standardized.

6.4.2.5. Advertising Theme

In this section the topic of translating copy and message is not dealt with, what is, is the evolvement of communications strategies that address the Japanese market as opposed to being part of a standardized global campaign. For example a major advertising campaign — Visa International — handled by one of the companies interviewed BBDO/ASATSU has common elements everywhere except Japan. Its international theme of "Everywhere you want to be..." uses exotic locations to confer emotional appeal by associating the product with aspirational settings. That is valid in many markets where such cards are also credit as well as charge cards. However the situation in Japan is different where cash transactions are more popular and cards have not so far been issued with rolling credit. While the use of such cards is acceptable for travelling they are not largely acceptable for domestic use. So, the Visa creative approach was adapted in Japan to demonstrate that the use of Visa opens up a more vibrant life style. It worked by depicting a restaurant on a boat in Kyoto that was juxtaposed on another shot of a yacht sailing around Manhattan looking at the island from a new perspective. In this way two core Japanese values were harnessed: the pleasure of fine food and experience of the unusual with the message "Whether at home or in New York, Visa is the key to a more vibrant life style."

6.4.2.5.1. Adapted

The most well adapted advertising themes were those of Bristol Myers, Nippon Lever and Rolly Doll. In each case they were so well adapted because they were carefully developed considering knowledge of the consumer together with a carefully constructed plan of what the companies could attempt to achieve with their advertising. One departure in practice that occurs in Japan is that the Japanese consumer is not merely interested in brands, he/she is also concerned about the type of company that produces those brands. As a consequence the major brand advertisers such as Unilever and Procter & Gamble actually tag their TV commercials with their corporate logos and a line which says..." a product from Nippon Lever", etc. Moreover, Nippon Lever's advertising themes are bespoke for Japan stressing dedicated positionings that have meaning for Japanese consumers as demonstrated by their marketing research.

Amway and Avon are partially adapted. The former places much emphasis on event management such as the sponsorship of the arts. Coca Cola and Nestle are also partially adapted with campaigns evolved purely for the Japanese market. Nestle has successfully run the same campaign for its Nescafe brand since 1967. The campaign, developed by its agency McCann-Erickson Hakuhodo called "City of the World" concentrates on marketing the culture that surrounds the product. In establishing that this was the most warranted campaign at the outset and consistently stressing the same idea has been partly responsible for Nestle winning a 70 per cent market share in the sector. On the pet food side of the business, Nestle has successfully utilized its understanding of pet owning consumers and communicated to them in a tone of voice that regards the pet as a member of the family. McDonald's offers a mixture of theme and tactical advertising just as it does in many other markets. Heinz's thrust is educational and stresses the quality features of its products. Philip Morris uses its advertising freedoms aggressively as does RJR.

A factor that Levi Strauss changed on its move to Japan was its consumer communications — they started to advertise its unique heritage by stating that they were the original inventors of jeans in 1850. Previously they were using life style advertisements. By consulting the Japanese consumer it learned that it could have removed the Levi's logo and replaced it with that of one for a competitive product and it would have worked perfectly well. Since 1978, the advertising that Levi Strauss Japan K.K. has produced is quite specific to its heritage, its origins and the origins of jeans in particular¹⁸. Revlon stressed its foreign connection but did so deliberately.

6.4.2.5.2. Standardized

Gillette and United Airlines showed the highest levels of standardization in this category. Gillette had recently launched a major new brand Sensor using creative approaches that originated in the US. United Airlines diligently submitted creative and copy

6.4.2.6. Advertising Copy

Theme is one thing, copy another. Common advertising themes may be made more specific by adjusting the copy strategy.

6.4.2.6.1. Adapted

Amway, Avon Products Co. Ltd, Bristol Myers K.K., Nestle, Nippon Lever, Philip Morris and Rolly Doll were fully adapting their copy to the Japanese context. Coca Cola (Japan), Eastman Kodak, Johnson and Johnson and Kohler were less adapted, relying upon headquarters and or international advertising agency input to some degree. The same was true of Levi Strauss (Japan), Heinz, McDonald's,

¹⁸ See Box 5.1

Procter and Gamble, RJR, and Revlon.

6.4.2.6.2. Standardized

Gillette, ICI and United Airlines were the most standardized in this respect. All the companies were interfacing with advertising agencies in Japan and were able to greater and lesser extents influence treatments and tactics even when international advertising campaigns were being implemented. The impression was gleaned that the degree of latitude that was given, was linked, among other things, to the amount of perceived Japanese expertise that existed in the subsidiary company which in turn was a function of the amount of time and experience that executives had gained in the Japanese market.

6.4.2.7. Pricing

Pricing decisions were most devolved in Avon, McDonald's, Nippon Lever, and Rolly Doll. Having made that point, it is important to highlight that there is always a tension between the returns that subsidiary companies are yielding and their freedom to operate pricing strategies that maximize their longer term market development potential given that long term profitability tends to follow the expensive acquisition of market share.

Amway, Bristol-Myers K.K., Coca Cola (Japan), Eastman Kodak (Japan), Nestle, ICI, Kohler, Levi Strauss Japan K.K., Philip Morris, Procter and Gamble, RJR, Revlon, SKB and United Airlines were all partially adapted in pricing terms. Bristol-Myers was often forced to adapt as a result of its JV relationship since the partner Lion was insistent in growing the business and constantly arguing for investing in greater market penetration by holding down prices. Coca Cola (Japan) was returning more profits than the American corporation and was thus allowed a large degree of freedom how it ran its affairs, pricing being only one of many policy latitudes. Eastman Kodak (Japan) was charged with the remit to develop the

market and its pricing strategies were not subject to detailed overseeing by the parent in Rochester. Nestle maintained a great degree of autonomy as to its pricing policies. The same was true of Levi Strauss Japan K.K., its headquarters company was more interested in returns and progress rather than the mechanics of how it was achieving them. The same was theoretically true of Philip Morris K.K. and Procter and Gamble Far East Inc. but in the latter case after writing off approximately US\$300 millions the Japanese company offers a great deal of explanation on points of detail, whether Cincinnati requests them or not. R. J. Reynolds/M. C. Tobacco Company Limited operates on a similar basis to Procter and Gamble. It has received massive influxes of investment and its management tries very hard to ensure that the details of its plans are blessed by its parent. United Airlines fits this pattern also.

Revlon and Smith Kline Beecham are slightly looser in their reporting of detail. Their corporate style tends to be "hands off" unless problems arise.

6.4.2.8. Distribution

The approaches of the sampled companies toward distribution are now classified according to the degree to which they are adapted or standardized.

6.4.2.8.1. Adapted

Bristol-Myers K.K., Eastman Kodak (Japan) Ltd, Nestle/Friskies K.K., Johnson & Johnson Japan, Nippon Lever K.K., Rolly Doll Inc. are all operating through traditional distribution channels. In Bristol-Myers K.K. case it has bought into the traditional channel via its JV partner Lion. It was part of Eastman Kodak (Japan) Ltd.'s declared strategy to control its distribution direction. Nestle has had over 100 years of operating in Japan to develop its connections although it is during the

last twenty years it has leveraged its connections to the full¹⁹. Johnson & Johnson Japan has forged close relationships with the trade and places a great deal of emphasis on trade relationships. The same is true of Nippon Lever K.K. The Chairman and President of the company spend much time being seen to care about cementing relationships with their major wholesalers. Since they are dealing direct with over 2000 wholesalers the amount of individual attention they can give must be slight. When Coca Cola (Japan) Company Limited, entered the Japanese market, it built on its proven method of using bottle delivery trucks, that was a concept new to Japan. However they skilfully organized it to fit with the Japanese way of doing business. It set itself up as a franchiser which did not involve itself directly in sales. The bottling company that franchised the Coke business became its sales arm. These companies do the bottling and sell the product direct to restaurants and retailers via its bottle delivery trucks. The bottlers are all independent companies in which Coca Cola has made no direct investment.

Heinz, ICI Japan Limited, Kohler Japan K.K., Levi Strauss Japan K.K., Procter and Gamble Far East Inc., R. J. Reynolds/M. C. Tobacco Company Limited, Revlon, Rolly Doll Inc., Smith Kline Beecham are all partially adapted. They all look more toward the Japanese way of achieving distribution than they look back toward home country models. Levi Strauss Japan K.K. is attempting to work within the traditional system²⁰ but attempting to fuse its standard methods into that new context. In some ways it has made progress on other occasions it was forced to compromise²¹. Procter and Gamble Far East Inc. has moved away from its status quo in which it was operating in a similar vein to Unilever with 2,400 wholesalers in favour of a system which involves 50 core wholesalers complemented by another 100 to round out geographical coverage²².

¹⁹ See Box 5.11

²⁰ See Box 5.1

²¹ See Box 5.1

²² See Box 5.13

6.4.2.8.2. Standardized

Amway, Avon, Gillette, McDonald's and United Airlines were all using similar standardized approaches to those employed in other markets.

6.4.2.9. Sales Promotion

The sampled companies approaches toward sales promotion are classified according to the degree to which they are adapted or standardized.

6.4.2.9.1. Adapted

Bristol-Myers K.K., Coca Cola (Japan) Company Limited, Eastman Kodak (Japan) Ltd and Nestle/Friskies K.K., Levi Strauss Japan K.K., Nippon Lever K.K. and Rolly Doll Inc. are fully adapted with regard to Sales Promotion. Of these companies one in particular stands out — Nestle/Friskies K.K. The company believes that its sales promotional expertise has enabled it to tailor promotional programmes for distributors and retailers alike and this has been largely responsible for it forging close relationships within its distribution channels. Frequently it might develop, execute and tailor sales promotions for as few as five stores.

Gillette (Japan) Inc., ICI Japan Limited, Johnson & Johnson Japan, Kohler Japan K.K., Philip Morris K.K., Procter and Gamble Far East Inc., R. J. Reynolds/M. C. Tobacco, Company Limited, Smith Kline Beecham and United Airlines are all partially adapted.

6.4.2.9.2. Standardized

Amway, Avon Products Co. Ltd., Heinz/Ore-Ida, McDonald's Company (Japan), Ltd., Smith Kline Beecham are all partially standardized. That is to say they successfully import promotional methods from other markets and make them work in Japan.

6.4.2.10. Customer Service

In general the methods applied to customer service by all companies tend toward adaptation. This is because successful companies have learned that customers of all types of products expect quality to be unsurpassed and they demand retribution if there are any shortfalls. Nestle commented that it had sent three key employees to apologize to a housewife who had made a complaint. In no other country in the world would it do that. RJR commented on the fact that consumers complain about detailed packaging flaws that would go unnoticed in other markets and that complaining was developing into a self standing industry. Unilever had learned that its products were sometimes hoarded for years and the consumer expected those products to perform as if they were new, as a result Nippon Lever had engineered higher packaging standards to suit. A key theme manifest in almost every company interviewed was that the consumer had high expectations on every dimension and successful companies gear up their operations to respond accordingly.

Avon and Amway direct sales personnel were the vanguard of their customer service interface. Bristol Myers relied heavily on its JV partner Lion to execute high standards of customer service. By way of the delivery sales personnel of its franchisees, Coca Cola was forging direct service connections with hundreds of thousands of retailers. Eastman Kodak had bought out its distributor which gave it a direct connection. McDonald's was in daily contact with its franchisees via its computer systems and management follow-up systems. Companies such as Nippon Lever and Rolly Doll accorded customer service with the highest priority. Of course this is not a static situation. Gillette was making purposeful strides to reassure its distributors that it had only the highest degree of concern for the well being of their business but this was something that was forced upon it as a result of its past mistakes. Similarly Levi Strauss was very concerned about this issue but again there was a large measure of compensation for past errors propping its current

behaviour.

6.5. SUMMARY AND IMPLICATIONS

Two analytical frameworks were utilized in this chapter against which the companies in the sample were appraised. The first framework was concerned with the approach that the sample companies adopted toward achieving competitive advantage (Porter, 1990). This involved nine dimensions. The dimensions against which the companies were assessed are coded as follows:

1. Competitive advantage grows out of improvements, innovation and change
2. Competitive advantage involves the whole value chain
3. Competitive advantage is sustained only through relentless improvements
4. Sustaining advantage demands that its sources be upgraded
5. Sustaining advantage ultimately requires a global approach to strategy
6. Sell to most sophisticated and demanding buyers and channels Establish norms of exceeding the toughest regulatory hurdles or product standards
7. Treat employees as permanent
8. Establish outstanding competitors as motivators (Porter, 1990).

By way of summarizing the previous Tables 6.2 to 6.10, they are represented in Table 6.12.

Table 6.12 — Summary of competitive performances

Dimension of Competitive Advantage	1	2	3	4	5	6	7	8	9
Amway	H	H	H	M	H	H	H	H	H
Avon Products Co. Ltd.	H	H	H	M	H	H	H	H	H
Bristol-Myers K.K.	H	H	H	H	H	H	H	H	H
Coca Cola (Japan) Co. Ltd.	H	H	H	H	H	H	H	H	H
Eastman Kodak (Japan) Ltd.	H	H	H	H	H	H	H	H	H
Gillette (Japan) Inc.	H	H	H	M	H	H	H	H	M
ICI Japan Limited	H	H	H	H	M	H	H	H	H
Johnson & Johnson Japan	H	H	H	M	M	H	H	H	H
Kohler Japan K.K.	L	L	L	L	H	M	H	H	H
Levi Strauss Japan K.K.	M	H	H	H	H	H	H	H	H
Heinz/Ore-Ida.	M	M	M	M	M	L	H	H	M
McDonald's Co. (Japan), Ltd.	M	H	M	M	M	H	H	H	H
Nestle/Friskies K.K.	H	H	M	H	H	H	H	H	H
Nippon Lever K.K.	H	H	H	H	M	H	H	H	H
Philip Morris K.K.	H	H	H	H	M	H	H	H	H
Procter & Gamble FE Inc.	H	H	H	H	H	H	H	H	H
R. J. Reynolds/M. C. Ltd.	M	M	M	M	M	H	H	H	H
Revlon	M	M	M	M	H	H	H	H	H
Rolly Doll Inc.	H	H	H	H	M	H	H	H	H
Smith Kline Beecham	M	M	M	M	H	H	H	H	H
United Airlines	M	H	H	M	H	H	H	H	H

It can be seen that all of these companies tend to score high and medium in the main, with the exception of Kohler. Considering that they were chosen to represent companies that by reputation were succeeding in developing a presence in Japan this is unsurprising. However this shows one of three situations: that these sample companies are successful at developing competitive advantage vis à vis Porter's (1990) framework, or that Porter's framework is shown to be a valid descriptor for successful companies, or both.

However, what is clear is that no single dimension is necessarily associated with success as defined in this study. In other words the dimensions of the framework in

the way that it was applied, cannot be used as discriminating variables to highlight degrees of success. A clear example of this can be gleaned from dimension 5 which related to globalization. Kohler was rated high and was struggling (it was in an investment phase however) and Heinz was graded Medium but was relatively successful. There are several reasons why these anomalies may exist, not least of which is the competitive situation that each company faces in its key arenas. However, the operationalization of success was by peer group evaluation and may have been too unspecific. Alternatively, discrimination may have been impaired due to insufficient variance in the sample, since the companies were all selected as representative of successful companies. Nevertheless, the overall pattern of compliance of these successful companies with the framework does suggest that it includes an intelligent set of precepts.

Following the categorization against Porter's (1990) framework, an attempt was made to classify and review the key companies in the sample against the Quelch and Hoff (1986) framework. That framework embodied three dimensions of global marketing: business functions, products, and marketing mix elements. Along each of these dimensions the companies were classified according to the degree of standardization that is imposed by the central organization or the degree to which the companies have adapted their operating standards to the Japanese context. It was illustrated that most of the companies studied were either operating in arenas where the degree of cultural grounding was low, or they had succeeded by positioning their products in such a way as to make it irrelevant. Bristol Myers was focusing on some products that were more highly culturally grounded but it was not at all encumbered. It offset any potential disadvantages through its relationship with its JV partner Lion or by adapting its marketing message while reaping economies by standardizing its products. Kohler was meeting with difficulties. Its products were based on US standards and US thinking. Its managing director was discouraged and in the process of leaving the business at the time of interview.

What was clear about these successful companies was that they all operated with a high degree of autonomy (Kohler appeared to be an outlier in this regard) and in the main were focused on the Japanese market and producing dedicated innovations for that market. These findings were consistent with those of Yoshihara (1991).

The majority of managers interviewed regarded the advantages of globalization as being applicable only in so far as they believed that other markets had much more to gain by learning from their Japanese experience. An exception to this rule was the area of marketing which was still regarded as a western strength. Common problems cited included:

- Industry standards remain diverse and even higher Japanese standards are not necessarily acceptable or economically justifiable in other markets.
- Japanese consumers demand differentiated products, primarily on quality
- Being an insider remains critically important especially in terms of distribution and marketing networks
- Global organizations are difficult to manage and most had problems in gaining what they perceived to be appropriate support from corporate HQ
- Globalization often circumvents subsidiary competencies.

These summary observations are also largely supported by Morrison, Ricks and Roth (1991).

In the next chapter the overall conclusions to the study will be drawn.

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CHAPTER 7 — CONCLUSIONS

Nihonjinron perpetuated myths referred to in Chapters 1 and 2 suggested that there are many misunderstandings regarding what makes Japan successful, just as there is little appreciation of what is involved for foreign companies to become successful in the Japanese market. This later point is one on which little published research exists (Grossberg, 1990). To compensate for this shortcoming the objectives of this exploratory research study were to explore the reality of this situation by studying a representative sample of foreign companies, all of which had developed their market positions in Japan, and to distill out the implications for marketing strategy based on their experience. In so doing the study aimed to: explode or support many of the "myths" surrounding the Japanese market and develop a synthesis based upon the recent experience of those foreign companies that have reaped success in Japan.

Chapter 2 offered an appraisal of Japanese opportunities and threats widely believed to be present in the Japanese market. This appraisal, included a macro economic view of Japan, a review of the market obstacles including the background to the Structural Impediments Initiative (SII) talks between the US and Japan and the findings of the first report (Anonymous, 1991). It was followed by a review of the Japanese market characteristics and trends with particular focus on the consumer and the features that enable broad opportunities to be charted. After appraising the market, the corporate environment was studied and review made of the role of corporate philosophies, intelligence management and the overall pattern of corporate behaviour. Following this appraisal a structure was established based on these headings. That structure was then harnessed to present the responses of the sampled companies to the market situation they faced. This followed later in Chapter 5.

From the literature review in Chapter 3 flowed a suggested structure to the thesis that was also conditioned by the assessment of the data according to the principles of grounded theory (Bailey, 1987). These findings were presented in a qualitative format, mainly in the form of mini case studies that were encapsulated in boxes and cross referenced throughout the text. It is in the richness of this data that one of the strengths of this thesis lies.

Foreign MNC responses to the obstacles and threats they faced were presented in Chapter 5. This covered the responses that were made to the Japanese consumer, as well as to market obstacles, Japanese market characteristics, competition and other strategic situations. In that chapter strategic implications were outlined for marketing research, market entry modes, competitive response, product development, communications and distribution.

Chapter 6 included an analysis of the sample companies that drew upon two apposite theories drawn from the literature search. They were Porter's (1990) framework of competitive advantage and to address the "Japan is different" debate; the standardization versus adaptation framework published earlier by Quelch and Hoff (1986).

This final chapter first covers a number of specific conclusions that are drawn from the data. Of course any such conclusions will be limited by the specificity of the situations that faced these sample companies and blind generalizations should be discouraged. In presenting these conclusions, some observations will be made regarding the nature of the Japanese market opportunity. Finally the study will be related to the background and focal theory, much of which lies in the interface between strategic management and marketing.

The presentation of the specific conclusions follows the pattern:

- Japanese business environment
- The myth exploded
- How foreign MNCs have coped.

7.1. JAPANESE BUSINESS ENVIRONMENT

Research and interviews conducted during this research have indicated that Japan does indeed offer myriad attractive opportunities for the foreign investor. Clearly that with few structural obstacles in place, in what has hitherto been viewed as a complex and prohibitive market, non-Japanese consumer goods' companies can succeed. What foreign concerns cannot ignore is that it is essential to apply fundamental principles of marketing and product positioning. While this may appear to be a generic statement, it is of great import. Frequently marketers make implicit assumptions about facets of the marketing concept and how it ought to apply. Only infrequently do they revert to fundamental analysis of the sort used by Nippon Lever by starting with basic research to understand the consumer and the way that products fit into her life. Indeed, P&G admitted that the major cause of its problems (US\$300 million write offs) stemmed from a failure to do so (Box 5.13). P&G focused on matters of detail without first asking more fundamental questions, unlike Levi Strauss which moved its operational base from Hong Kong simply to get closer to the Japanese consumer (Box 5.1). Of course there were cases where products or ways of doing business simply struck a chord with the Japanese consumer, for example Amway (Box 5.5) and the benefits were realized without the levels of prior research exemplified by Unilever.

The Japanese consumer market can best be characterized as possessing the following attributes:

- Highly segmented;
- Comparatively rich consumers;
- Consumers fascinated by newness;
- Limited living space for consumers;
- Quality conscious consumers;

Other key issues are:

- Tough Japanese competitors
- Japanese approach to product planning
- Barriers to entry.

7.1.1. HIGHLY SEGMENTED MARKET

The Japanese market is large but highly segmented, reflecting many subtle shades of taste and preference many of which may be accessed by highly specialized media. Direct marketing is a growing medium that may offer increasing scope in the future as technology advances and if the postal service becomes sufficiently enlightened by extending discounts for commercial volumes of mail. Market segments in Japan are often made by creative interpretation and action based marketing. As shown in Chapter 5, they are seldom latent. Therefore the attractiveness of the hugeness of the Japanese market is offset somewhat by its heterogeneity, in the sense that it is composed not of one huge group of buyers but many smaller groups with distinctive expectations and needs.

7.1.2. COMPARATIVELY RICH CONSUMERS

While with international measures, the Japanese consumer is comparatively wealthy; the reality is that many consider themselves to be deprived, especially concerning their housing conditions. Many argue that the country's dramatic economic achievements have not been passed on to the consumer in full; but nevertheless, yen incomes are sufficient to support the mushrooming luxury imported goods' markets. Consumerism is buoyant — a scenario likely to continue into the 1990s as the yen and Japan's economy hold strong, thus making this market an opportunity too promising to ignore.

7.1.3. CONSUMERS FASCINATED BY NEWNESS

Although Japanese consumers are intrigued by newness, they are both sophisticated and discerning, and unlikely to be satisfied — at least initially — with "me too" offerings. It is therefore essential that foreign companies clearly differentiate their brands and ensure that "newness" claims are authentic.

7.1.4. LIMITED LIVING SPACE FOR CONSUMERS

It is true that many Japanese consumers in heavily populated areas occupy restricted living space, a constraint that have obvious implications for product design and marketing emphasis. Producers must be well-versed on the impact of living in close quarters — everything from limitations in scope for furniture and investment in household items to cleaning product fragrances. It is not surprising therefore to find enhanced emphasis on product replacement, luxury items and travel.

7.1.5. QUALITY CONSCIOUS CONSUMERS

Japanese consumers' preoccupation with quality means that standards considered satisfactory in other markets may be unacceptable in Japan. Foreign companies are therefore advised to manufacture in Japan and/or strive to gear their foreign production quality to meet Japanese standards. Product strategies that harness this "quality" factor offer the opportunity of adding yet another element to the armoury of corporate competitiveness, an element that may be of critical value in other markets in the present or later.

The dynamism of the Japanese consumer market is a critical factor of which foreign companies should be aware. Change occurs rapidly and constantly. One development in particular that merits special attention, and on which investors should ensure they are well briefed to position themselves to take advantage of new opportunities is Female Consumerism. Young, single, female Japanese consumers,

in particular, represent a lucrative market segment in so far as they generally live at home and have large disposable incomes that they are not averse to spending on a range of consumer products. This growing group is targeted by a variety of different industries and is the mainstay of many designer goods' producers.

7.1.6. TOUGH JAPANESE COMPETITORS

Japanese competitors constitute some of the world's largest and most formidable corporations. They typically adopt a long-term orientation and, if deemed necessary to capture market share, are prepared to invest to levels that would create havoc among western shareholders; if foreign companies are to compete they need to clearly determine consumer opportunities, be prepared to withstand fierce competitive struggles and focus on specific areas of expertise that harness their strengths.

Moreover, Japanese companies compete ferociously for market share, but are not averse to forming co-operative subsets on specific ventures to capture a market. In addition, they are often prepared to plough gains back into advertising and product improvement and/or diversification to further extend their market positions. They have, according to Abegglen and Stalk (1985), as well as the interviewees, usually been satisfied with much lower returns on their investments than their western counterparts, but this is also a function of company structure. As a consequence, the Japanese shareholder is accustomed to a tiny return; the western counterpart is not and is more likely to respond vociferously to small dividends. Foreign MNCs must therefore select opportunities wisely; focusing on those that offer a high likelihood of success and which can be funded adequately.

Another feature of Japanese companies is their ability to assemble resources and respond to opportunities very quickly — particularly in the production of "me too" offerings. Not surprisingly, new products and "uniqueness" have only a short life in Japan. Having introduced new goods to the market; foreign companies should

plan to continue the innovation and improvement process to maintain their market position.

Fiscal 1991 earnings' reports being unveiled by Japan's biggest companies during 1992 were well down on the previous year. During the six months ending in September 1992 companies' pre-tax profits plunged by an average of 36%. Manufacturing firms fared worst. Matsushita, the world's largest maker of consumer electronics, saw its pre-tax profits tumble 66%; NEC's crashed 71% and Mazda's fell 72%. Nippon Steel's were down 74%. Japan's second-biggest car maker, Nissan, lost ¥14.2 billion (US\$114m) before tax, its first loss since it listed on the stock exchange in 1951. Across Japan, production lines are being mothballed, wages frozen and bonuses paid in unsold goods instead of cash. Even the unmentionable — sacking lifetime employees — is being discussed. The word 'restructuring' is being used. For the third time since the second world war, Japanese business is facing massive and painful readjustment (Economist, 1992).

All this leads to the question: Is corporate Japan vulnerable at last? Maybe. However, many economists say the Japanese challenge will not end anytime soon. Never mind that Japanese companies are deprived of the cheap capital that once galvanised investment abroad and at home, they are afraid to increase exports because of trade tensions and, in some key industries like electronics, are stumped for bold new consumer products. Largely, they are so far ahead of the rest of the industrialized world in capital investment and research and development that it hardly matters. That was the message Kenneth Courtis, an economist with Deutsche Bank in Tokyo, gave to the congressional Joint Economic Committee in Washington on May 8, 1992. He forecast that Japan, fuelled by capital expenditures twice those of the United States as a proportion of gross national product, would enter 'a new period of explosive expansion' after the recession. He predicted Japan would surpass the United States as the world's largest economy soon after the turn of the century (Hirsh, 1992). Thus the Japanese market is likely

to remain a major opportunity area as well as, and will be argued later, a key influence on consumer behaviour world-wide.

7.1.7. JAPANESE APPROACH PRODUCT PLANNING DIFFERENTLY

To a large extent the product planning approaches of Western and Japanese companies are quite different. Yet the two share some common features. The Japanese approach has been almost entirely technically led but is showing some signs of becoming less so (Box 5.14); whereas the Western approach does not always follow that pattern shown in the box and is sometimes technically led with marketing appraisal following that lead. In the drive for market responsiveness greater convergence between these two schools of approach appears likely.

7.1.8. BARRIERS TO ENTRY

If there is any one obstacle to entering the Japanese market it is the cost of entry. For example the Wednesday Group, a Republican Party congressional body, recently released details of a study of 340 American companies that shows that despite Japan being the world's second largest economy, it has the lowest levels of foreign investment per capita of all industrialized countries. The main reason, it concluded, was not the much heralded informal barriers but simply the high cost of Japanese land. High cost was cited by 55% for non development of the Japanese market whereas only 22% cited non-tariff barriers. Only 3% said the market was closed to them (Economist, 1993).

Land, people and learning experiences — all of these are expensive in Japan — and a long-term payback period is the norm. Foreign companies must therefore ensure that their commitment to the Japanese market is well founded: there is no point starting unless the strategic commitment to continue exists. To underfund such an exercise may serve only to signal the opportunity to Japanese competitors.

Stories abound of high-technology US products that have flopped in Japan for unaccountable reasons. In 1976, for example, when Cray came out with the world's first super computer, Japan said it didn't need them. Then in 1983, Fujitsu produced its version, and suddenly Japanese universities and government-funded research labs started to buy super computers (Hirsh, 1991). Cray, like IBM, has dominated the world market but still holds a minority share in Japan, though it is growing steadily. This pattern of exclusion is one that US trade negotiators, with an eye to America's own high-tech future, have long discerned. Today, with most tariffs, quotas and unfair import regulations out of the way, they are trying to probe the murky area of informal market barriers under the Structural Impediments Initiative. According to S. Linn Williams, the Deputy US Trade Representative for Asia (Hirsh, 1991):

We tried to hit the market access issue in every way we could, so it couldn't run and hide some other place.

The problem is in finding a 'smoking gun' — evidence that the government is still quietly making market access difficult.

No one single theory has a monopoly of applicability to the Japanese consumer market context. However, the industrial network theory (Hakansson, 1982; Turnbull and Valla, 1986) would appear to have particular pertinence to major parts of Japanese consumer marketing strategy and distribution in particular. As Ford (1979) indicated, relationships develop through interactions in which the collaborators build mutual trust. This issue is particularly salient with winning distribution in Japan. Frequently distributors, *sogo shosha* especially, will restrict attempts to trade to within their networks, an issue with which Heinz took issue in its collaborative venture with Mitsubishi.

7.2. THE MYTH EXPLODED

At the commencement of this project, the researcher was working with an operating assumption that it was difficult if not nigh impossible to penetrate the Japanese market. If there is one overriding finding emerging from this study it is that this myth has been dispelled. Penetration of the Japanese consumer market is an entirely plausible aim. Companies such as Amway, Avon and Rolly Doll have been singularly successful in penetrating the Japanese market with concepts and ways of doing business that are decidedly American. Others have achieved similar status with less overt foreign approaches. It is true however that the myth of impenetrability had some substance at some stage, but as far as the consumer products market is concerned the myth has lingered too long.

7.2.1. *NIHONJINRON* AN INVISIBLE BARRIER

The reason it has lingered is primarily due to the support rendered by the Japanese to give succour to that myth and has been reinforced by inadequate efforts on behalf of foreign companies to try to disprove it. A primary reason is that the parties, upon whom it has fallen to explain Japan, are businessmen such as Morita, Honda and so on (Yoshino, 1992:164), and they, have, on their domestic side of the equation, a vested interest in keeping foreign companies at bay. There is a danger however that this myth could rebound on those companies that have learned to cope with the Japanese business arena as protectionists [mainly US] continue to cry foul and further sour trading relations between Japan and its trading partners, especially during this current recessionary era.

An additional explanation for the widespread belief that the Japanese market is characteristically different may be helped by invoking a musical analogy. An adagio is a piece of music designed to be played slowly and gracefully. Yet if it is played quickly, although retaining the same structural characteristics, it will on first listening no longer resemble a piece that is well known in its adagio form. It is

likely that it would require an accomplished musician to recognize the structural content; and, so it is with consumer marketing in Japan. It is fast, in musical terms allegro, more precisely allegro *con spirito*, not adagio. That is to say, it is so fast and requires the skills of accomplished fast moving goods' marketers who are skilled in recognizing the structural similarities shared between markets who can bring the appropriate skills to bear on the Japanese situation.

This study has shown that the Japanese consumer market responds similarly to marketing initiatives that have been successful in other major sophisticated markets and that there is no structural marketing mystery, with distribution perhaps being an exception, to unravel. Yet, even distribution issues can be coped with. However, it is a very fast moving marketplace, and according to the executives interviewed, far more competitive than any other markets that they had experienced; and these executives were highly experienced international marketers.

Foreign companies in Japan have at last identified another problem: the 'head start' phenomenon, a topic dealt with in the literature (Reid, 1980).

Perhaps the biggest difficulty of breaking into the Japanese market is that decades of targeted development by the Japanese government have yielded corporate giants: What's happened is that because of the protectionist environment of 15 years ago, ... most of the companies we're competing against would be nowhere near the size that they are today.

S. Linn Williams, Deputy US Trade Representative for Asia (Hirsh, 1991)

The research identified that a number of foreign MNCs have successfully developed strategies which when executed fastidiously have resulted in success in the Japanese market. Attention to the detail of assembling the marketing mix has resulted in positive outcomes. Market share has been won and consumer franchises established.

However, if, as Japan contends, tariffs and other formal trade barriers no longer exist, why are so many US companies still complaining? If, as the US government

contends, formidable barriers remain, why are so many other US and Foreign companies succeeding in Japan? As in the fable of the blind men and the elephant, the answer usually depends on which part of the Japan market is being reached for. Some experts say there has long been a pattern to who succeeds; the only question is to what degree it persists.

On the whole, 'strategic' industries targeted by the Japanese government for development, such as automobiles and semiconductors, have been harder for foreigners to break into than low-tech areas Japan doesn't much care about (Hirsh, 1991). Having said that, a clear body of support emerged, from those companies interviewed, for the view of Abegglen and Stalk (1985); that Japanese companies have been protected from foreign investment by foreign companies' "indifference, ignorance and unwillingness to pay the price with effort and patience" to succeed in Japan. The converse of those criticisms applied in those successful companies that were included in the study. Apt labels to use as their descriptors were patient, vigorous, committed, wise, curious.

7.2.2. FOREIGN COMPANIES CAN EXCEL

Despite its formidable reputation for complexity and difficulty, foreign concerns can succeed in the Japanese market. As the research for this thesis has illustrated:

- Several foreign MNCs are market leaders
- Access to distribution can be gained.

7.2.2.1. Several foreign firms are market leaders

During the research a number of companies were identified not only that had successfully developed positions in the Japanese marketplace but were occupying leadership positions.

For example Coca-Cola has, as have other consumer products companies surveyed in this research, succeeded. It controls nearly 60 percent of the

carbonated soft drink market in Japan. However:

Companies that break in such as Procter and Gamble, Schick, and Amway tend not to be strategic industries. In certain areas where Japan wants to create its own industry, it's difficult for American companies to compete.

Glen Fukushima, former top US trade negotiator

The prize industries are coddled with low-cost capital and other encouragement and have tended to add value at different stages of production, passing on expensive products to the consumer. The auto sector, for example, comprises a range of cottage industries. It accounted for three-quarters of 1990's US\$41 billion trade surplus with the United States (Hirsh, 1991). America is not likely to erode much of that surplus by selling low-priced goods like frozen potato products or soft drinks back to Japan.

Of those that have succeeded, in the majority of cases, success had taken a long time and was hard won. Procter & Gamble — regarded by many as the world's finest marketing company won a leadership position in the diaper market then lost it only to win it back again. In developing its market position it was forced to learn that its "Cincinnati model" had to be discarded. This lesson required it to write off US\$300 million.

Foreign companies must be prepared for a sustained, rigorous effort to ensure that the essential competitive ingredients exist and enable them to leverage their strengths to win over both distribution and consumers. Not only are they succeeding, those that are surviving, according to The Ministry of International Trade and Industry, in a recent annual survey of foreign businesses in Japan, the foreigners' operating margins, at an average 6.1% were nearly two-and-a-half times as high as those for Japanese companies (Economist, 1989). Moreover, as was detailed throughout the text many of the sampled companies had achieved leadership positions in some of their business arenas: Coca Cola in soft drinks, Bristol Myers in oral analgesics, Johnson and Johnson in baby powders, Nippon Lever in the

shampoo sector, and so on. Other examples of leadership were presented throughout the text. Many of the best foreign success stories in Japan date from the immediate post war period, when there were no restrictions on direct foreign investment in Japan if companies were prepared not to repatriate profits. Coca-Cola was one such 'yen company' that has reaped the benefit of staying for the long haul and today it earns more in Japan than in the US.

7.2.2.2. Access to distribution can be obtained

Distribution is widely regarded as a serious obstacle to marketing in Japan; however, MNC experience shows that coverage can be won by ensuring there is a market for the product (product differentiation is a minimum requisite) and by demonstrating a willingness to develop a long-term relationship with potential distributors.

External political influences, combined with internal recognition, are likely to open the Japanese market further. The Ministry of International Trade and Industry (MITI), for example, has determined that the Japanese consumer should be the primary beneficiary of the country's economic success during the coming decade (Palmer, 1990) — a dictum that will undoubtedly have an impact upon Japan's "notorious" distribution system (Smith, 1990; Economist, 1991; Rowley, 1991). In addition, the easing of the Large Scale Retail Law, the spread of information technology, restructuring, mergers and acquisitions' activity among distribution companies, coupled with the sheer growth in consumer activity and the responses to it are likely to increase distribution opportunities.

Removing the restriction in the Large Retail Store Act will probably not result in dramatic reductions in distribution costs. The most profound organic change is in putting more power into the consumers' hands. The most serious deterrent to changing the Japanese distribution system is the lack of consumer representation and the lack of realization by the consumer that this is what keeps distribution costs

high, a point reinforced by Fields (1989). With over 10 million Japanese travelling abroad each year a strong prime mover to such change is provided.

7.3. HOW FOREIGN MNCs HAVE COPEd

We have seen throughout the text that foreign MNCs have succeeded in the Japanese consumer products' market. These successes have clear implications at:

- The corporate level
- The subsidiary marketing strategy level.

7.3.1. THE CORPORATE LEVEL

Success in Japan is not assured but it is a worthy aim to strive for, both with its potential revenue yielding ability and in terms of its strategic influence.

Several issues have emerged:

- Marketing strategies and corporate aims
- Transnationalism
- Strategies are often incremental
- Home market advantages are transferable
- A clear sense of vision
- Many foreign MNC successes have their origins in JVs
- Marketing is an under exploited western strength
- Porter's framework for competitive advantage is valid
- Important to perform across the value chain
- Strategic decision taking.

7.3.1.1. Marketing Strategies And Corporate Aims

This research has highlighted that feasible marketing strategies are conditioned by overall corporate aims and the levels of support that are forthcoming to subsidiaries in their market development efforts. That corporate political contexts (Livingston, 1971) were extremely important was seen to be very true. For example, interviewees were asked to cite one success ingredient above all others. The most salient cited by far was top level headquarters support. Besides, the huge costs of operating in Japan require nothing less than total commitment at the corporate level. Even though P&G made many fundamental mistakes it was committed at the corporate level to bringing about a successful resolution to its venture. That those time horizons for investment pay back extend beyond the tenure of any one company president requires that the commitment is corporate rather than individual, a pattern that is rather typical of the Japanese approach to market development.

7.3.1.2. Transnationalism

The mode of behaviour which Lacktorin (1990) described as transnationalism appears to fit the model set by many of the sample companies. Unilever, ICI, P&G, Nestle and several others were moving their investment patterns to reflect the relative importance of the members of the Triad of USA, EC4 and Japan in proportion and were developing their ability, as he put it, to capture "insider responsiveness advantages." They also have multiple identities and local management performs a significant part in strategic decision making.

7.3.1.3. Strategies Are Often Incremental

In Porter's (1980) work he stressed the necessity to achieve fit between the enterprise and its environment (Porter, 1980), although he largely neglected the process of strategy implementation. In this work, a different emphasis has been

taken. Efforts were made to probe the issue of fit but much effort has also been placed on collating detailed case materials across many areas of strategic marketing activity and of implementation in particular. In this way an enriched data set has been established which, I believe, yields insight into the Japanese consumer marketing context met by foreign MNCs.

Various management approaches have been highlighted as has the way that management attitudes were conditioned by experiences in the Japanese market. Negative experiences, for example Kohler rendered the company less sanguine, whereas in the case of P&G, negative experiences resulted in greater determination to succeed and be seen to succeed. Other companies' successes resulted in more positive perspectives. Several were attempting to wrest control from their JV partners others were attempting to build their businesses faster. Moreover, although Porter (1980) argued that the mere sum of all activities that result in a competitive strategy — either explicit or implicit — is rarely the best way to achieve success and Quinn (1980) proposed that much real strategy was formulated incrementally, in this study it was found that while many of the MNCs had formulated strategies according to Porter's precepts, their successes just as often resulted from incremental patterns. For example, when P&G was striving to regain its position in the diaper's business it reformulated its product and re-launched it three times in eighteen months. Bristol Myers modified and re-modified its original positioning for Sea Breeze until it found a winning formula that it adhered to. The success of Rolly Doll was based entirely on incremental movements. Nippon Lever developed new positions and opportunities for its traditional Lux brand, eventually applying it in the Shampoo category with the result that it surpassed its earlier success with Timotei. The list is long with details provided in the text and boxes.

While those processes, advocated by what Mintzberg, (1990) referred to as the Design School, self identified as represented by Ansoff, (1991), exist; they represent only a part of the process of strategy formulation. The approach toward

product planning adopted by the *kaisha* was incremental in the extreme. Much data was gathered to support the view of Lindblom, (1979) that while stratagems may not withstand scientific scrutiny, what is important to the managers is that they feel comfortable with them. And, as Mintzberg, (1977) has previously indicated, it has been shown in this work that incrementalism is very much an intelligent management learning process.

7.3.1.4. Some Home Market Advantages Are Transferable

Porter's (1990) view that competitive edge is determined as a result of having competitive skills in the home market was supported. The Japanese market is above all highly competitive and Japanese companies do compete ferociously for market share. In the Japanese market the decisions to enter arenas are often based on qualitative factors such as wanting to win or to achieve a leadership position. That the costs of participation are so high and the financial gains of the *kaisha* have frequently been so slender has often attracted accusations of irrational behaviour from foreign MNCs.

There was an overwhelming consensus among interviewees that the Japanese market is the most competitive of all those of which they had knowledge or previously experienced. This intensity of competition renders it difficult to penetrate the Japanese market with erstwhile successful products from home markets unless they possess some advantage in the Japanese market. The most likely advantage that can be transferred into the Japanese market is marketing expertise. With marketing flair positioning opportunities can sometimes be seized. Furthermore, several of these foreign MNCs in the sample were reaping benefits in other markets as a result of their participation in the Japanese market, for example Nippon Lever with carbonated tea in Europe, Kodak (see Box 5.4), P&G with compact detergents, Coca Cola and Nestle with their strategic alliance on vending machines and so on.

7.3.1.5. A Clear Sense Of Vision

Corporate mission was deemed by the respondents to be an important factor with developing their Japanese business operations. However, unlike Japanese companies in which missions are often not formally stated but, according to consultants and others interviewed, are absorbed from the ether in a process of osmosis, the Japanese subsidiaries of these foreign MNCs tended to have clearly stated missions that were communicated formally in the Western way as well as through their corporate acculturation processes. The foreign MNCs in the main had clearly defined goals, as evidenced by the spontaneous, lucid responses made by the interviewees, and were attempting to build on relevant common thread. In some cases the common factor was based on product or brand, in others it was process based, or on marketing wherewithal. Although this is cited as an observed characteristic of foreign MNCs operating in Japan, great care must be taken in generalizing on these observations since these foreign MNCs were subsidiaries that were competing against home based Japanese corporations. As a consequence it is more likely that these foreign MNCs would be expected to prepare statements of philosophy and goals as part of their processes of reporting to headquarters.

To bring the elements of the marketing mix together in the Japanese consumer marketing context requires the foreign MNC to form a clear picture of the consumer. Armed with this knowledge, only then can the positioning be fine tuned.

7.3.1.6. Many Foreign MNC Successes Have Their Origins In Joint Ventures

Many of the interviewees testified to the importance of their JV arrangements as contributory to their success. JVs however, are two sided coins and the recent break-up of several co-operative projects is part of a wider trend that is seeing an increasing number of foreign MNCs choosing to go it alone; several examples were given in the text of acrimonious break ups. Other stresses and frictions were also

alluded to among the sample companies: for example Bristol Myers, ICI. In some cases, the advantages of the JVs have become outweighed by non complementary goals and cultural misunderstandings.

7.3.1.7. Marketing Is An Under Exploited Western Strength

While Japanese companies are quick to react to threats and opportunities and are capable of impressive technical innovation, they have been less impressive with theoretical and conceptual marketing. Western marketing approaches can be applied successfully as some of the case studies have demonstrated. Western firms in Japan can take advantage of this disparity by focusing on building their understanding of the consumer and following with product concepts that offer a high likelihood of success and marshal their resources accordingly. This relative strength may provide a temporary advantage since Japanese companies are understood to have become more alert to the need to sharpen their marketing skills.

7.3.1.8. Porter's Framework For Competitive Advantage Valid

The framework which Porter (1990) advanced as a basis for establishing competitive advantage was shown to be a valid descriptor, in the main, for the successful companies in the sample. The overall pattern of compliance of these successful companies with the framework does suggest that it includes an intelligent set of precepts. However, caution must be advanced regarding the sample and how it was used. These companies, although notionally successful with how success was defined in Chapter 4, had developed their positions in the Japanese market after varied but usually quite long periods in which they had experienced both learning and making of mistakes as well as successes. Their positions were thus based on the accumulation of wisdom from successful as well as unsuccessful ventures. While attempts were made to probe their failures some respondents were transparently reluctant to reveal insights (this was particularly true of P&G) and

consistent with findings that executives are much more inclined to recognize strengths than they are weaknesses (Reid, 1989).

7.3.1.9. Important To Perform Across The Value Chain

In selecting arenas in which to focus, Porter (1985) offers the value chain as a basis for the enterprise to gauge its relative performance. This was one of the factors included in the framework against which the sample companies were assessed for competitive advantage. The majority of the executives interviewed were at pains to express that success in Japan relied on performing well on as many of the elements in the value chain as is possible. To fail to do so was in the terminology of Hamel and Prahalad (1989) to leave a "hole in the wall" that their Japanese competitors would mercilessly exploit.

7.3.1.10. Strategic Decision Taking

Strategic decision making involves looking to the long term. This is not new, but taking a long-term perspective of developing the Japanese market has been a difficult lesson for many MNCs to learn. Entering the domestic Japanese market is expensive, time-consuming, it requires patience, and a preparedness to learn about and understand the complexities of the Japanese consumer coupled with the tenacity to maintain a long-term commitment. Foreign MNCs and their subsidiary company general managers would do well to heed the advice of these long-time Japan investors in this regard. Short-term, opportunistic approaches are simply incompatible with the Japanese way of doing business. This is the unequivocal view of those interviewed; a view supported by the Wednesday Group survey (Economist, 1993). Its study showed that 70% of the 340 US respondents said the Japanese market was open to them provided a long term commitment was made.

7.3.2. SUBSIDIARY MARKETING STRATEGY LEVEL

While interviews conducted in preparing this thesis suggest there are few structural obstacles applied solely to foreign MNCs; the Japanese market remains difficult from a competitive viewpoint. Some factors to consider are: Generally, Japanese prefer to work for Japanese corporations and the concept of company loyalty, lifetime employment. The role of the firm in the lives of the Japanese people has been the subject of many books, articles and reports, for example Alletzhauser, (1990); Redding and Baldwin, (1991). The difficulties foreign companies encounter in attempting to recruit high-calibre Japanese staff were noted. As a result, non-Japanese concerns have found it essential to link brand success with their corporate profiles; target more adventurous prospective employees; demonstrate a long-term commitment to Japan; and provide for long-term career development.

If foreign companies are to succeed in the Japanese market, it is essential they adhere to and observe the following:

- Strategic windows highly relevant
- Harness fundamental marketing principles
- Strategic segmentation of crucial importance
- Monitor competitive activity
- Make marketing strategies Japan specific
- Ensure marketing mix differentiation.

7.3.2.1. Strategic Windows Highly Relevant

In Japanese consumer marketing the concept of "strategic windows" (Abell, 1978) is highly relevant. As was illustrated, time horizons for exploitation of competitive advantage are especially short. The threat of rapid emulation requires foreign MNCs to plan to stay ahead. Planning of line extensions even before the Mark I version is launched is a virtual requirement. This ferocity of competition means that it is extremely difficult to milk a brand's position as to cut back on investment in the communications mix is usually accompanied by a more rapid fall off in market share position than the respondents had noted in other markets. Although this is to some extent a generality it requires radical thought about the thresholds at which investment should be made and the rates of returns that can be expected.

7.3.2.2. Harness Fundamental Marketing Principles

In two lessons, this means (a) understand the Japanese consumer; and (b) tailor the products to Japanese needs. Analysis of success stories in the Japanese marketplace indicates that foreign companies have developed strong positions simply by the application of textbook principles.

7.3.2.3. Strategic Segmentation Of Crucial Importance

One of the key elements of the marketing approach about which mention was made in Chapter 3 is segmentation. The principle of market segmentation is based on splitting markets into sub components that share similarities within, yet maximize the reaction to the modified marketing mixes presented to them. It tends to be most frequently used at a tactical marketing level and less at the strategic level advocated by Abell and Hammond (1979).

The research has highlighted just how valid the segmentation approach can be. For, in this market that as stated above, is superficially homogeneous concerning

racial stereotyping, hair and skin colour, and self perceived with social classification; market segmentation, strategies were shown to be highly influential on market success. That is to say that the apparent homogeneity would appear to mediate against segmentation strategies but this apparent homogeneity masks a wide variety of tastes and expectations. Segmentation has been shown to be of most crucial importance at both strategic and tactical levels. It was shown that the Japanese market is far from homogeneous and segmentation opportunities abound. Several instances were cited of businesses that had been build around this recognition.

An observation worth noting regarding segmentation as it is applied at a strategic level is that Japanese companies appear, superficially at least, to be less restricted in choosing their business arenas. Kao, the World's largest consumer products company, for instance, viewed itself as a chemicals' manufacturer and was prepared to leverage its technology in a variety of fields in which its marketing synergy was questionable. Conversely Nippon Lever and Procter and Gamble possess similar technology to Kao, but perceive their synergistic interests to be defined by their consumer marketing expertise rather than their technologies.

It is always problematic in making comparisons between subsidiary operations such as Nippon Lever with in this case Kao since the former is an operation in a foreign market and the latter is the major force in its home market, although attempts were made throughout the research to distinguish "branch plant" effects. However, this limitation on the business boundaries of Nippon Lever and P&G was an understanding that stemmed from both of their overall corporate strategies and was well understood in London, Cincinnati and Japan. It was not a "branch plant" phenomenon. Furthermore, it is not possible to say that Kao is right or wrong, merely to observe that it has a different way of viewing the same issue. Perhaps this difference may be attributed to the more generalized approach to management in Japanese companies and the under-development of marketing, as it is understood

in the West, as a separate management discipline in Japan.

7.3.2.4. Monitor Competitive Activity

This may be done by preempting where possible and adopting the Japanese strategy of reacting quickly. Competitive reaction in Japan is so rapid that a successful product is likely to be emulated within a few short months. This requires that foreign companies prepare themselves for the inevitable ricochet market responses by queuing up line extensions, diversifications and improvements to maintain their competitive edge.

7.3.2.5. Make Marketing Strategies Japan-Specific

This may be achieved, for example, by adopting a gift-giving positioning. As was mentioned in the text, gift giving attracts high levels of consumer expenditure and even everyday consumables, for example Lux toilet soap as we saw in Chapter 5, can find a niche in this gift giving market.

Japan's domestic market boasts as varied an array of products as is available anywhere in the western world. Since products that do not satisfy their needs are likely to be ignored, the onus is on the foreign concern to understand the Japanese consumer and the way he/she uses products, and then develop products that are "Japan-specific", for example in the way Unilever has "Japanized" the formulation of many of its major international brands. Positioning is a key to success in the Japanese market.

7.3.2.6. Ensure Product And/Or Marketing Mix Differentiation

To stand any chance of success, foreign companies must differentiate their efforts by offering product uniqueness: for example a singular delivery system (such as Coca-Cola with its vending system; Avon and Amway with their direct distribution methods). It may be a viable option to harness the quality of

"foreignness".

Two issues must be stressed:

- Adaptation Versus Standardization
- Differentiation.

7.3.2.6.1. Adaptation Versus Standardization

Some foreign MNCs were marketing brands that exist in many other markets; which in terms of Dunning's (1988) eclectic theory means they are harnessing "internationalization" advantages. The lesson that these successful companies deliver is that brand positionings must be adapted to suit the Japanese context. As a result an international brand in Japan is likely to have a different consumer meaning from that which it has in Europe or the US. A useful example of this was Visa which had an entirely different positioning than in other major markets. Other illustrations were given in the main body of the thesis.

There is no specific pattern to the issue of standardization versus adaptation, according to this assessment, for the business functions. However, for the Quelch and Hoff (1986) analysis, most of the companies studied were either operating in arenas where the degree of cultural grounding was low, or they had succeeded by positioning their products in such a way as to make it irrelevant. For example, two companies that were operating in high culturally grounded arenas were Bristol Myers and Kohler. BM offset potential cost disadvantages through its manufacturing relationship with its JV partner Lion and by adapting its marketing message while reaping economies by standardizing its products. Conversely, Kohler appeared to be meeting difficulties. Its products were based on US standards and failing to make the desired impact; its operations were geared to US thinking.

As was shown in Chapter 6, there was a tendency, over all companies, toward adaptation, across all the elements of the mix. That is to say that clear evidence

emerged that the marketing strategies of these successful companies were being adapted to the Japanese context.

7.3.2.6.2. The "Differentiation" Factor

Foreign enterprises should also be aware that undifferentiated products fail to win distribution in Japan. Consumers simply ignore anything not possessing either a strong brand identity or a differentiated positioning. The most successful positionings developed by foreign companies were those which reflected Japanese values and or orientation or were made to synergize with them, for example Bristol Myers' Sea Breeze, SKB's Contac Sogo, Nippon Lever's Timotei, Rolly Doll's Aunt Stella, and so on.

7.4. APPOSITE THEORIES

The subject studied was wide ranging in scope. Several of the sub topics, for example advertising, entry strategies, distribution would all provide ample separate opportunities for doctoral research. Since the field was considered an under researched area (Grossberg, 1990) and this intended as an exploratory study, a broad approach was taken, thus increasing the chances of identifying salient issues that emerged.

7.4.1. DESIGN SCHOOL VS EMERGENT SCHOOL

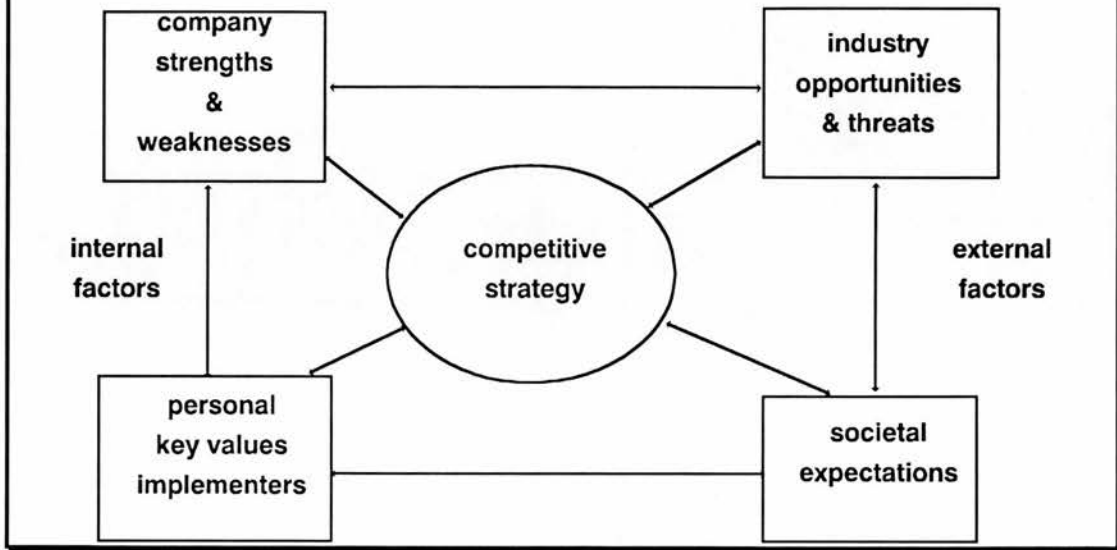
However the apparently antagonistic views of Mintzberg, (1990); Wheelwright (1984), Ouchi (1980), Lindblom, (1959) on the one hand and Ansoff (1965), Ansoff et al. (1970), Bateman and Zeithaml (1989), Anderson and Paine (1978), Das (1986), Mitchell et al. (1986), Simon (1957), Weick (1990) on the other were shown to have more in common than in division. For example, the model depicted in Figures 3.3, and 3.5 to 3.7 can be construed to accommodate both groups. It does so by regarding the contents of the boxes as either processes of decision taking

or information acquisition. The processes are continuous and iterative. By allowing for iteration; and given that the inputs are dynamic entities, it is necessary that it should iterate. It allows for the "softer" political, social, consensus aspects of strategy formulation to play a part. Moreover, it would be plain foolish to ignore inputs such as environmental change, competitive activity, and so on. These precepts were acknowledged as important in strategy formulation as early as 400 BC in the works of Sun Tzu (Wee et al., 1991), and to attempt to dismiss them would be naïve.

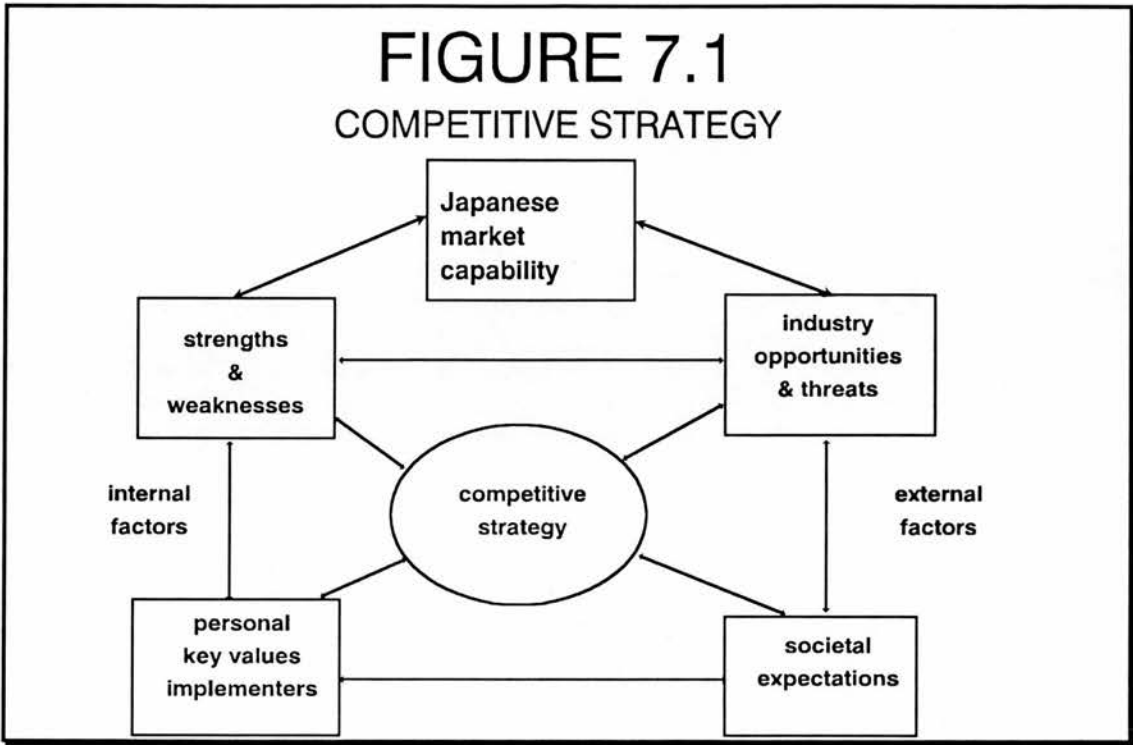
7.4.2. SUCCESS IMPROVES COMPETITIVENESS

Success in the highly competitive Japanese market enables foreign MNCs to hone their product and marketing skills which in turn renders them more likely to be able to succeed in other markets. The final stage of the marketing strategy model in Figure 3.7 was the execution of the marketing mix and the collective effect of the marketing mix determines the overall market share position (Reid, 1980). Moreover, competitiveness, according to Porter (1980), results from the balancing of two sets of forces — internal and external (see Figure 3.8 reproduced below).

FIGURE 3.8
COMPETITIVE STRATEGY



Indeed, Porter indicated that one of the key determinants of the success of national economies is the ferocity of competition at home. He argued that Japan and the old West Germany are both extremely competitive markets. The ability of the *kaisha* to compete globally, he asserted, was determined by the preparation Japanese companies receive by first competing ferociously in their home market (Porter, 1990). This research has shown that successful participation in the Japanese market conditions the behaviour of MNCs in other markets. For instance, PepsiCo's success with its carbonated tea was emulated by Nippon Lever by way of its Lipton's operation and comparable brands are now being marketed in Europe. Moreover, as was mentioned earlier in the text, P&G was first converted to compact detergents by the success that was registered in the Japanese market by Kao. The implication is that Porter's model of competitive strategy (Porter, 1980) may be extended to include Japanese market competence as a factor that adds to the inventory of strengths and weakness of the enterprise and conditions the perception of opportunities with which it is qualified to grapple in the longer term (see Figure 7.1).



Adapted from Porter (1980: xviii)

Of the theories that were introduced in Chapter 3 under the heading of International Marketing Strategy, one that had more explanatory power, superficially at least, in this context was not Dunning's theory but the Process Model (Carlson, 1966; Carlson, 1975). That theory predicted an evolving process as a result of interaction between knowledge acquisition together with increased resource commitment in the market. This explanation fits the pattern of almost every foreign MNC in the sample. However is this just not another example of incrementalism? Any intelligent management would surely attempt to limit its exposure, learn from newly acquired experience and then determine in which direction to go and at which pace to move. As Forsgren (1989) deduced, its prime value is in providing illumination before the enterprise becomes greatly involved in a market when lack of resources and knowledge are still a constraining factor.

To fail to appreciate the necessity of investing in relationship building in Japan is to fail to appreciate one of the most fundamental aspects of the Japanese business

culture. Whether considering tenure periods of top foreign executives or making distribution decisions, relationship building pervades all aspects of business dealings. Three year postings espoused by American companies were considered particularly inappropriate. Since the costs of operating in Japan are so high, this reinforces the need for wholehearted headquarters support because in the early days, development of the business may be a slow process as connections are forged with no immediate pay off. Failure to make this kind of investment was cited by the interviewees as one of the key failures of foreign MNCs in Japan; a finding that won support earlier from Abegglen and Stalk (1985). No doubt this could be argued to be true for the development of any foreign operations but what is more acute in the Japanese context is the high costs and the additional concomitant commitments.

7.4.3. PORTER'S (1990) FRAMEWORK FOR COMPETITIVE ADVANTAGE

The sample companies were appraised against two literature based frameworks (Quelch and Hoff, 1986; Porter, 1990). Porter's model of competitive advantage was used first followed by the Quelch and Hoff framework which was adapted into three sets of broad dimensions against which the approaches toward standardization and adaptation to the Japanese market were classified high, medium or low. Included in this appraisal were the business functions of the companies: development, manufacturing and marketing. Their products were classified according to the degrees of cultural grounding that existed. Then, marketing mix elements: product design, brand names, product positioning, packaging, advertising themes and copy, pricing distribution, sales promotion and customer service were analyzed.

With the Porter (1990) framework, most companies tended to score high and medium in the main, with the exception of Kohler. As was mentioned in the text, it

was a troubled company, its managing director being somewhat disaffected and in the process of leaving the company to set up a consulting company. Given that the companies were chosen to represent companies that by reputation were succeeding in developing a presence in Japan, the data shows one of three situations. (1) These sample companies are successful at developing competitive advantage vis à vis Porter's (1990) framework, or (2) Porter's framework is shown to be valid for successful companies or (3) Both. No single dimension in this framework in this data set appears to offer high discrimination powers.

7.4.4. STANDARDIZATION VERSUS ADAPTATION

The appraisal against the Quelch and Hoff (1986) framework revealed that the majority of managers interviewed regarded the advantages of globalization as being applicable only in so far as they believed that other markets had much more to gain by learning from their Japanese experience. An exception to this rule was the area of marketing which was still regarded as a western strength. However, common problems cited included:

- Industry standards remain diverse and even higher Japanese standards are not necessarily acceptable or economically justifiable in other markets.
- Japanese consumers demand differentiated products, primarily on quality
- Being an insider remains critically important especially in terms of distribution and marketing networks
- Global organizations are difficult to manage and most had problems in gaining what they perceived to be appropriate support from corporate HQ
- Globalization often circumvents subsidiary competencies.

To some extent the marketing concept requires reinterpretation. "Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others" (Kotler, 1988). In Chapter 3 it was emphasized that this definition is based on

notions of: needs, wants, demands, products, utility, value, satisfaction, exchange, transactions, relationships, markets, marketing and marketers, all of which are linked by information flows. From the marketers' side it involves identification of market opportunities, preparation and planning to exploit the opportunity profitably, followed by effective execution of the plans.

7.4.5. KEY MARKET FACTORS

This research has unearthed some evidence that it is insufficient to merely take account of the needs and expectations of consumers in local markets. It highlights the requirement to take account of the influential effects of key markets. Markets just as consumers have their opinion leaders in the longer term. The US, in particular California, was a major influence on style and consumer tastes in the 1970s. The world witnessed the emergence of Silicon Valley and listened to Californian sounds which have been recycled through advertising and movies. However the emphasis during the 1990s through to the 21st Century is likely to be influenced by Japan to a greater extent than hitherto. More consumers will own more Japanese consumer products and will listen to music and watch movies that are in turn produced and marketed by Japanese owned companies. As the scale of the Japanese economy continues to grow and its technological supremacy expands, Japan will market its culture more widely.¹ Marketers will take cognizance of trends in Japan and the standards of expectation of Japanese consumers to interpret future opportunities in other markets as Japanese quality and inventiveness expectations are exported world-wide.

¹The Japanese government has sponsored major cultural exhibitions in London and other major cities with which it has trading connections. Japanese artists receive increasing shares of showings in art galleries worldwide.

7.4.6. SUMMARY

Many instances were identified of companies that have succeeded in overcoming the difficulties presented in the Japanese market. Foreign companies have penetrated at the luxury end of the consumer goods' business, just as they have succeeded in winning consumers of everyday consumables. While much is being made by the US in particular about Japanese obstructiveness and unfair trade practices, none of those companies interviewed would lend any support to the notion. A clear signal was given that the consumer market is open to foreign operations. That does not mean that the Japanese market is easy to enter. As we have seen, it is extremely expensive, which is a major impediment.

Those foreign enterprises that have succeeded have done so by determining approaches that suit the contexts of their products and organizations. To make their entries into the Japanese market has required imagination and commitment to deal with the difficulties that confronted them, but they have successfully entered and are carving out significant positions in the marketplace. Such commitment however has required massive investment but Japanese companies also incur the same high costs. Those foreign MNCs that have succeeded are the types of companies that have the competencies to survive gallantly in the next century. As Prahalad and Hamel put it: In the 1990s, top executives will be judged by their ability to identify, cultivate, and exploit core competencies that make growth possible. Core competencies are the collective learning in the organization, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies (Prahalad and Hamel, 1990). They will have to rethink the concept of the corporation itself. The critical task for management will be to create an organization capable of infusing products with irresistible functionality or creating products that customers need but have not yet imagined. For example, no consumer demanded a disposable contact lens, but J&J's Vistakon is building a major business out of this unspoken need for convenience.

In the course of this work many theories have been accessed and mentioned. As was indicated in Chapter 3 its purpose was merely to demonstrate the complexity of the subject; highlight a lack of concurrence where it exists; introduce terms and concepts that would be referred to, show the context in which marketing strategies are conceived; develop an analytical framework; and pinpoint the danger of seeking a denouement solely from the marketing literature. In this way some methodological approaches were discarded a basis provided for others. Of those that were accessed, some were gauged to be particularly apposite to this research and worthy of further development for particular applications. These are presented in Table 7.1 below which also details where some of the supporting data can be accessed in the main body of the text.

Table 7.1 Apposite Theories

Application	Theory	Text Reference
Market penetration strategies	Value Chain (Porter, 1985)	5.2.2, 6.3.2
Qualities possessed by successful companies	Competitive advantage of nations (Porter, 1990)	6.3
International market selection	Transnationalism (Lacktorin, 1990)	Box 5.4, Box 5.11
Market development	Incrementalism (Quinn, 1980) Process Theory (Johanson and Vahlne, 1977; Carlson, 1966; Carlson, 1975)	5.4, 5.5.4.7, Box 5.14

Distribution and market entry strategies	Network theory (Ford, 1979; Hakansson, 1982; Turnbull and Valla, 1986) Cultural Obstacles (Moeran, 1990; Yoshino, 1992)	5.2.6 5.2.4 5.2.3
Marketing mix development	Standardization vs adaptation (Quelch and Hoff , 1986)	6.4, 6.5,
Product opportunity exploitation	Strategic Window (Abell, 1978) Strategic Segmentation (Abell and Hammond, 1979)	Box 5.14 Box 5.10

7.5. LIMITATIONS OF RESEARCH AND FUTURE DIRECTION

This research was based entirely on the experiences of foreign MNCs that had been successful in the Japanese market. However for reasons given in Chapter 4, totally unsuccessful companies were not included because de facto they cease to exist, but this was further defended on the basis that even these successful companies had experienced failures during their time in Japan and therefore offered the advantage of a dual perspective. Any decision to withdraw from the market is likely to have had much to do with views prevalent at corporate HQ that would have required a different thrust to the research. It is possible however, that had the research concentrated on the experiences of failed companies, some different perspectives may have been unearthed. Although every effort was made to effect a faithful and objective assessment of the data obtained from these foreign MNCs, the

data were limited to what could be recalled and what the executives were prepared to reveal. With few exceptions these executives were extremely helpful and forthright. However, such a piece of inductive research, as most social sciences studies are, is, in the words of David Hulme: essentially an act of faith (Hulme, 1893; Hulme, 1947). Although every effort was made to eliminate personal bias in the interpretation of the data, as the eminent structuralist Michel Foucault indicated: we all think that we are value free but we are not (Dreyfus and Rabinov, 1983; Foucault, 1970).

As the Pacific Asian economies are expected to become increasingly successful and manifest high growth, more insights will be required by international marketers. Similar thrusts of research should be initiated in the Asian region in such key markets as Taiwan, South Korea, Thailand, Vietnam, PRC, Indonesia and so on. In this way some light may be shone on the opportunities and difficulties that are presented by such markets and outlines developed for tackling the opportunities in timely fashion. It should not be necessary for western MNCs to wait until the *kaisha* demonstrate that yet more opportunities have passed them by.

7.6. CONCLUDING OBSERVATIONS

Several objectives have been served by this study:

- The attractiveness and feasibility of penetrating the Japanese market has been highlighted.
- The strategic necessity of gaining a position in the Japanese market has been underlined.
- Pointers for guidance on strategy have been delineated at both the Corporate and Subsidiary company levels.
- Incrementalism was found to be much in evidence to the detriment of the Design School approaches advocated by Ansoff (1965) and others, although the rigours of that type of strategic analysis are often applied, but from the perspective of the position on the branch (Lindblom, 1959) where the company is sitting.
- The research highlighted that it is insufficient to focus analysis merely on consumers but also to take account of influential markets.
- Porter's (1980) model of Competitive Advantage can be enhanced by the inclusion of Japanese market competence as a factor.

In summary, the key to marketing success in Japan is to follow the precepts of the marketing concept. What is required by foreign MNCs to develop a market position in Japan is implementation of the marketing concept to its fullest extent: the critical — and obvious — message since if MNCs can understand Japanese cultural differences, Japanese consumers and their needs, develop strategies that take account of the particular quirks of the Japanese market, primarily with its high quality standards and sophistication, Japan offers great opportunities. Not only that, Japan is becoming the development ground for international markets. It is increasingly becoming a trend setting forum of significant influence and companies with international interests will find it essential to establish a learning and monitoring presence in Japan merely to hold their positions in their traditional markets in the longer term.

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APPENDIX I

LIST OF INTERVIEWEES AND COMPANY PROFILES

Gerry Rosenberg, Marketing Manager Japan
Amway

A direct selling company of home care, housewares, nutritional products, gifts and personal care items. It was the fastest growing foreign owned company in Japan 1983-86 with a compound annual sales growth rate of 117%.

Interviewed: May 30, 1990

Koichiro Naganuma, Senior Director International Division
ASATSU Inc

One of the major Japanese advertising agencies with extensive resources. Known to have considered making a hostile bid for the two largest advertising agency networks Saatchi and Saatchi and WPP simultaneously during 1991.

Interviewed: June 5, 1990

David Fong, Vice President
Asatsu/BBDO Inc

The Japanese arm of the New York based World top 5 agency network. Famous for its Pepsi advertising and other worldwide accounts such as Visa, Campbell's Foods, etc.

Interviewed: October 30, 1990

James T. Conte, Senior Vice President
ASI Market Research (Japan) Inc.

A long time established marketing research company in Japan. Currently part of the Maxwell owned AGB group.

Interviewed: May 29, 1990

Colin O'Halloran, Vice President - Planning and Development
Avon Products Co. Ltd.

Cosmetics, nutrition and personal care company famous for its direct selling approach to distribution.

Interviewed: June 5, 1990

Mitchell P. Cybulski, President
Bristol-Myers K.K.

Major pharmaceuticals and consumer products company with major OTC brands such as Bufferin.

Interviewed: June 6, 1990

W. M. Thompson, President Consumer Products Group Japan and Korea
Bristol-Myers Squibb Company
Major consumer company with brands such as Clairol.
Interviewed: November 1, 1990

Wong Chui-yin, Director Business Development
Business International
International technical publishing and consulting group.
Interviewed: June 4, 1990

George Maruyama, President
Chuo Bussan Corporation
A major consumer goods agency and distribution company with interests in hotels.
Interviewed: June 7, 1990

Frank Kelly, Representative Director & Executive Vice President
Coca Cola (Japan) Company Limited
The major international soft drinks giant; it has over 30% of the Japanese soft drinks business and derives more profit from Japan than it does in the US.
Interviewed: June 6, 1990

Kumi Sato, President
Cosmo Public Relations Corporation
A Japanese PR company which some three years ago was acquired by Kumi Sato, a Japanese American female ex McKinsey Consultant from New York.
Interviewed: June 7, 1990

Ira Caplan, Senior Vice President
Dai-ichi Kikaku Co. Ltd.
A major Japanese advertising agency dominant among those handling MNC and foreign clients.
Interviewed: June 6, 1990

Toshio Nakano, Manager Public Relations
Eastman Kodak (Japan) Ltd
The major worldwide photographic company with a presence in a number of arenas including pharmaceuticals. It recently acquired Sterling Drug which in turn owns 100% of Sterling Winthrop, the third fastest growing foreign company in Japan 1983-86.
Eastman Kodak (Japan)'s market share in seventeen product areas ranges from 15-85%.
Interviewed: June 4, 1990

Norman M Roberts, President

Gillette (Japan) Inc.

A dominant player in the shaving and personal care business, its market share in Japan is a reversal of its position to that of Warner Lambert's Schick, in other markets. In Japan Schick holds 80% with 20% held by Gillette.

Interviewed: December 18, 1990

John Russel, President & Chief Executive

ICI Japan Limited

A major British chemicals company, positioning itself as an international chemicals company in Japan.

Interviewed: May 29, 1990

Robert Wilk, Managing Director

Infoplan

A marketing research company, owned by the advertising agency and services group McCann Erickson.

Interviewed: May 30, 1990

Kneale H. Ashwell, Chairman

Johnson & Johnson Japan

Healthcare and consumer products company. It has 33% of the baby toiletries market, 10% of the adult lotion market, 32% of the adhesive bandage market, 10% of the toothbrush market, and over 30% of the cotton buds market.

Interviewed: June 4, 1990

Kerry Kennedy, President

Kennedy International Company Ltd.

Direct marketing company working with major companies such as Philip Morris.

Interviewed: June 8, 1990

Kenneth G. Boston, President

Kohler Japan K.K.

A major US based manufacturer of bathroom appliances and plumbing based products.

Interviewed: October 30, 1990

David E. Schmidt, President - Representative Director

Levi Strauss Japan K.K.

Internationally famous manufacturer of denim jeans and other fashion wear.

Interviewed: November 2, 1990

Larry D. Blagg, Managing Director

Market Makers Inc.

Consumer marketing consultants.

Interviewed: May 31, 1990

Ken Neilsen, President/Representative Director
Master Foods K.K.
Distribution company for Mars and Pedigree Petfoods.
Interviewed: June 8, 1990

Derek A. Groom, Senior Vice President
McCann Erickson Hakuhodo Inc
Japanese JV company of the international McCann Erickson advertising agency
network.
Interviewed: October 30, 1990

Tatsuki Kubo, Sr Manager Public Relations Dept.
McDonald's Company (Japan), Ltd.
Hamburger restaurant chain.
Interviewed: June 6, 1990
Kevin Jones, Principal
McKinsey & Company Inc.,
International management consultants.
Interviewed: May 30, 1990

Eric Webber, Marketing Manager
Nestle/Friskies K.K.
Probably the world's oldest multinational consumer products company with its HQ
in Switzerland. In addition to acquiring the pet food interests of Carnation, Nestle
has 70% share of the Japanese instant coffee market and 40% of the instant
creaming powder market.
Interviewed: May 31, 1990

Michael J. Schofield, Chairman
Nippon Lever K.K.
Anglo-Dutch owned MNC, one of the world's largest manufacturing concerns.
Highly diversified, its business spans six primary product groups - detergents (22%
total sales), edible fats (20%), food and drinks (18%), frozen foods (12%),
speciality chemicals (8%), others (10%). It has more than 500 operating companies
in 75 countries. Nippon Lever ranks sixth in the league of largest foreign
companies operating in Japan, some way behind Nestle, and ahead of Procter &
Gamble. Its strategy is to establish high value adding operation inside local markets
and maximize responsiveness to the markets it serves.
Interviewed: November 1, 1990

Dermot Gatenby, Director Planning & Corporate Affairs
Philip Morris K.K.
Major multinational tobacco, foods and beverage concern.
Interviewed: June 8, 1990

R. G. Pearce, President

Procter and Gamble Far East Inc.

Procter and Gamble manufactures and markets a wide range of laundry and cleaning products, disposable paper products including diapers, personal care products including pharmaceuticals. In Japan P & G currently manufactures and markets a wide range of packaged consumer goods including laundry and cleaning products, disposable paper products, personal care and OTC items. It has 11% of the Japanese dish soap market and has regained a leadership position in the diaper business.

Interviewed: October 29, 1990

Keith McCulloch, President and Representative Director

R. J. Reynolds/M. C. Tobacco Company Limited

International tobacco company.

Interviewed: May 28, 1990

Paul Hughes, President

Revlon KK

Major international cosmetics company.

Interviewed: May 29, 1990

Joseph Dunkle, President

Rolly Doll Inc.

Chain of "Aunt Stella's" cookie stores. Has extended its rustic appeal into furniture and travel.

Interviewed: June 1, 1990

Richard J. Findlay, President-Japan

Smith Kline Beecham

Major pharmaceuticals and consumer products company.

Interviewed: June 5, 1990

Bill Haggerty, Manager

The Boston Consulting Group K.K.

International management consultants.

Interviewed: October 30, 1990

Richard A. Bush, General Manager

Tokyo American Club

The American Club is the social nexus for expatriate managers in Japan. Dick Bush is highly knowledgeable of people and as a long term entrepreneur; of doing business in Japan.

Interviewed: May 31, 1990

Robert Leu, Regional Corporate Communications Manager - North Pacific
United Airlines.

US based international airline.

Interviewed: May 28, 1990

APPENDIX II

INTERVIEW TOPICS LIST

How would you describe the business you are in?

How well are you doing in Japan?
(probe for objective measure of success)

Do you have a mission statement or statement of philosophy for the business?
(what is it?)

What attracted you into this market?

- size
- growth potential
- segmentation trends
- new brand/product led
- pricing levels
- distribution contacts
- etc

What are the major opportunities on which you are focused?

What are the main broad environmental trends and events which are affecting the business for good and bad?

Which are the key competitors?

Company A
Company B
Company C
Company D
etc.

Relative to these companies what are your strengths?

Company A
Company B
Company C
Company D
etc.

Relative to these companies what are your weaknesses?

Company A
Company B
Company C
Company D
etc.

In the light of the balance between strengths, weaknesses and opportunities, how is your position being leveraged if at all?

What are your goals?

What problems, obstacles have you met (or expect) in:

- developing product strategies
- establishing pricing strategies
- determining communications strategies
 - advertising
 - sales promotions
 - direct marketing
 - public relations
- formulating distribution strategies

How will/have you respond/ed to these obstacles?

- developing product strategies
- are they bespoke for Japan
- Japanization
- packaging
- branding
- establishing pricing strategies
- determining communications strategies
- advertising
- sales promotions
- direct marketing
- public relations
- formulating distribution strategies

Prompt topics:

- Is it the view of foreign MNCs that Japanese companies are strategically superior?
- Are the styles of planning in Japanese companies bottom up?
- Does the theory of late entry shed any light on Japanese market behaviour?
- How is Japanese strategic behaviour characterized?
- How do foreign MNCs respond?
- Branch plant effects, would they behave differently in their home markets?
- Is segmentation a cornerstone of success in the Japanese market?
- Is segmentation strategy applied at a strategic level?
- How have foreign MNCs in Japan developed their market positions?
- Do foreign MNCs in Japan permeate responsibility for strategic marketing planning?
- Is there an absence of incentive to plan for the longer term?
- Is it true that Japanese companies have no clear self perceived weaknesses?
- Is common thread perceived differently by Japanese companies?
- Are Japanese companies particularly adept at coping with vagueness and contradiction?
- Is the principle of consensus a key to success?
- Is the internationalization process progressive?

APPENDIX III

RESEARCH PAPER REFERRED TO IN CHAPTER 4

APPENDIX IV

ACQUISITIONS BY FOREIGN COS & JV BUY-OUTS

In August 1983, Merck & Co of the US surprised the Japanese pharmaceutical industry by acquiring controlling interests in both Banyu Pharmaceutical Co and Torii Yakuhin KK, in what is still the most important acquisition by a foreign company in Japan. Neither of the Japanese companies was facing immediate financial disaster at the time of acquisition, but both faced bleak futures, since they lacked the strong R&D capability necessary to provide that constant stream of new products so essential for survival in Japan. This vulnerability made them natural targets for acquisition, according to Merck, whose own problem was how to deliver its world-class products to the Japanese market — armies of "detailers" being required to provide the level of service expected by Japanese doctors. A strategic fit was feasible, but there was no precedent for such a move.

Banyu's "people issue" — the key

Merck and Banyu had been JV partners since 1954, through Nippon Merck-Banyu (NMB) — a 50.5:49.5 JV created to manufacture ethical drugs in Japan. Before that, Banyu had served for a year and a half as Merck's marketing agent for cortisone. In 1970, Merck established a wholly owned subsidiary (MSD Japan) to import, export and wholesale Merck pharmaceuticals, industrial chemicals, and food additives, as well as to serve as a liaison between the company and its five Japanese affiliates. From Merck's point of view, the JV structure was insufficient to meet the needs of one of the big three world markets in pharmaceuticals. Even though it had access to Banyu's sales force of more than 500 and its research staff of 400, they were unable to sell their products as aggressively as Merck might have wished (promotional expenditures were allocated as a percentage of current sales, and the combined JV/Banyu sales force productivity was very low). A new organizational structure was needed to maximize the firm's strengths and satisfy Merck's strategic objectives.

Unlike many foreign companies, MSD was fortunate enough to have high-level expatriate managers with considerable experience in Japan and familiarity with its environment. Despite this and the JV's history, the pioneering US\$332 million acquisition still required nearly four years of negotiations. The local management was farsighted enough to see that without a major shot in the arm, Banyu's future was dim; but for president, Koichi Iwadore, son of the founder, the decision was a heavy one. "He was in the precarious position of having sold out a national treasure — a Japanese company listed on the Tokyo Stock Exchange," said Bryan Wright, vice-president of Merck Sharp and Dohme International. "It was a very statesmanlike move on his part."

At the time of acquisition, Dr Iwadore faced a barrage of tough questions from journalists: Why did he have to sell out when his firm was still making profits? If he had to sell, why didn't he find a Japanese suitor? How could the firm be

managed with foreigners pulling the strings? Didn't he yield to foreign pressures? Iwadare fended off these questions saying that in the interests of his employees' long-term job security, he preferred to follow his own "chosen way", rather than "fighting to the death" in classic Japanese style.

Nor did cultural obstacles disappear when the deal was finalized. According to Wright, "we were faced with the challenge of marrying two corporate and national cultures: Banyu's family-oriented and paternalistic, and Merck's freewheeling and open." Former Merck Officer, P. Reed Maurer, concurred that settling the "people issue" was and will continue to be central: "You are dealing with a big change in mentality, and this requires a lot of talking to ensure that employees will be protected." Merck also had to recognize the rights of Banyu's minority shareholders; mainly banks and Kirin Brewery Co.

In February 1982, Merck purchased 4.99% of Banyu stock on the open market for US\$18 million, becoming the fourth largest shareholder. At the same time, Banyu bought 0.8% of Merck's shares – an important face-saving gesture that expressed Banyu's approval of the move. Negotiations continued until early August 1983, when Merck acquired an additional 45.03% holding, for nearly US\$314 million, in the form of US\$197 million of convertible bonds (CBs) and a third-party distribution of new shares obtained by Merck through European Depository Receipts (US\$117 million). Rather than merely acquiring shares from the existing owners (which would have been almost impossible), Merck injected new funds, a sign of its commitment to fortifying Banyu's existing R&D. Upon conversion of its CBs, Merck and MSD (Japan) edged over the 50% mark to gain control. The tight maintenance of secrecy throughout the lengthy negotiations (which directly involved only a small number of people) played a decisive role in holding down the cost to Merck of the acquisition.

Five years later, Iwadare seems to have been vindicated. Banyu has, in Maurer's words, "achieved immortality" as an entity – something that might have eluded it had it waited until a rescue merger with a major Japanese producer became necessary. Far from being swallowed up, Banyu's Japanese management remains intact – as does its name and its TSE First Section listing – and in terms of sales, it has moved up from 15th to 11th place in the pharmaceutical industry. Despite an adverse market, which shrank for the first time in history in 1985, and the Ministry of Health and Welfare's unyielding price-cutting policy, Banyu has held its ground. With the introduction of two world-class Merck-developed products – Renivace (for the treatment of hypertension) in June 1986, and Tienal (an antibiotic) in September 1987 – Banyu's future looks bright.

Torii: easy in, easier out

Torii Yakuhin KK, a much smaller family-dominated firm listed on the over-the-counter market, approached Merck in search of new products. In contrast to the Banyu case, there was no existing relationship on which to build, but there was an economic case to be made – the use of Torii's 350 detailmen in return for access to

Merck's products. The price included a 30% equity stake, for which Merck paid US\$8 million in February 1982.

Torii Yakuhin: lead shareholders end-March 1982 to end-September 1983

Company	'000 Shares	%	000 Shares	%
Merck & Co.	4050	30.0	9,350	50.54
Takahashi Torii	819	6.1	519	2.8
Sumitomo Bank	500	3.7	500	2.7
Dai-Ichi K. Bank	337	2.7	337	1.8
Mitsui Bank	312	2.3	31	21.7
IBJ	312	2.3	312	1.7

Source: Torii Yakuhin

After becoming the largest shareholder, Merck had no immediate plans to raise its stake in Torii. But when news of the Banyu purchase erupted, Torii's OTC share price shot up and Merck had to make a quick decision; after an all-night session, the US firm arranged to acquire an additional 20.5% of Torii's stock for US\$11 million, pushing its share up to 50.5%. Here again, a new share issue (via a direct allocation to Merck) was required. Of the 5.6 million shares involved in the transaction, just 300,000 were purchased on the market. Within less than two years, Merck had gone from no relationship with Torii to a controlling interest. This transaction was entirely friendly and had the support of Torii's main bank, but nevertheless the experience suggests that when a foreign partner has a commanding bargaining advantage, a lengthy courting period may not be obligatory.

As it happens, the marriage was short-lived — and the divorce even more of a shotgun affair. Merck's new chairman decided that the move had been a mistake, and the Sumitomo Bank (which had acted as matchmaker between Torii and Merck) took Torii off his hands.

Cash-rich Asahi Breweries (a Sumitomo Bank company) then jumped at the opportunity to follow Kirin's example (a major Banyu shareholder) by diversifying into pharmaceuticals. A deal was made within 48 hours, whereby Merck received approximately 10 times its dollar purchase price for riding the *endaka* and the Tokyo market with Torii. Instead of integrating the two organizations, Merck decided to back Banyu, relying on direct recruitment for sales force growth. The Torii divestiture resulted in part from a change in strategy by Merck's new leadership, but it also illustrates the economic pressures associated with the post-1985 currency realignment, and the subsequent escalation of Japanese stock prices.

Even before the changes in environment, it was hard work to form a consensus of top management commitment to acquisition (or any other major direct investment) in Japan, and it may be all the more difficult today.

Source: Abbeglen and Watanabe (1990)

JV Buyouts By Foreign Partner (January 1982-October 1989)

Industry	JV
Metal (1)	Senko Japan (86)
Electronics (3)	Nippon Data (82)
	Aizu Toko (82)
	ITT Canon (84)
Machinery (8)	Tokyo Ryuki Seizo (83)
	Yokogawa-HP (83)
	Gray Co. of Japan (84)
	Komatsu Cummins (85)
	Nippin De Vibiss (85)
	Toyo Yuatsu Kikai (85)
	Gelman Sciences Japan (85)
	MSA Japan
Chemical (9)	E.L. Sunstar (82)
	Nisso Ventron (85)
	Asia Lithium (85)
	Nisso Master Builders (85)
	Teijin P.A. (85)
	E.L. (Japan) (86)

Pharmaceutical (5)

Nippon Fransil (86)
Eriez Magnetics Japan
Karonite Chemical (87)

Other Medical (2)

Parke Davis Sankyo (82)
Taito Pfizer (83)
Bristol Banyu (83)
Smith Kline (88)

Yokogawa Medical Sys (86)

Consumer Goods &
Distribution (10)

Japan V&F (82)
Gould HB Medical Prods
(82)
Campbell Japan (83)
Japan Fleet Service (85)
Kao Colgate Oral Prods (85)
Mentor Graphics Japan (85)
Sony Wilson (85)
Computerland Japan (85)
Teijin Volvo (86)
Modern Furniture Sales (88)

Others (7)

Ketchum Osawa Int'l (82)
Nihon Mistron (83)
Nippon ASCO (84)

Nippon Moog (84)

Tokai TRW (85)

Aehr Test Systems (85)

Aeroquip Automotive (89)

Source: Abbeglen and Watanabe, (1990)